

EUROPEAN ECONOMY

COMMISSION OF THE EUROPEAN COMMUNITIES • DIRECTORATE-GENERAL FOR ECONOMIC AND FINANCIAL AFFAIRS

Supplement A — No 8/9 — August/September 1988

*In this number:
Economic forecasts
for 1988 and 1989¹*

Recent economic trends

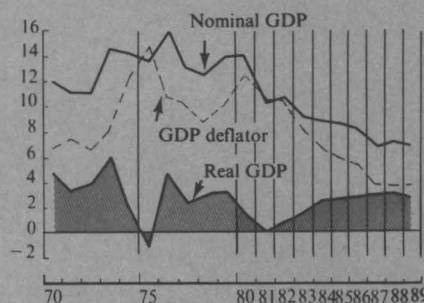
THE 1988/89 ECONOMIC SITUATION IN BRIEF

The main features of the Commission services' autumn economic forecasts are as follows:

- Economic growth in the Community continues at rates last seen in 1978/79: +3,5% in 1988 and +2,8% in 1989.
- Investment has become the motor of expansion in all Member States.
- Unemployment, however, will fall only slightly (to 11,3% in 1988 and 10,9% in 1989).
- In the absence of further progress in the disinflation process inflation remains low (3,5% in 1988 and 3,7% in 1989).
- The external position of the Community as a whole deteriorates; the divergences amongst Member States increase.
- Output and trade at the world level achieve very high growth rates in 1988, but will slow down somewhat in 1989.
- The reduction of the international current account imbalances continues, albeit rather slowly.

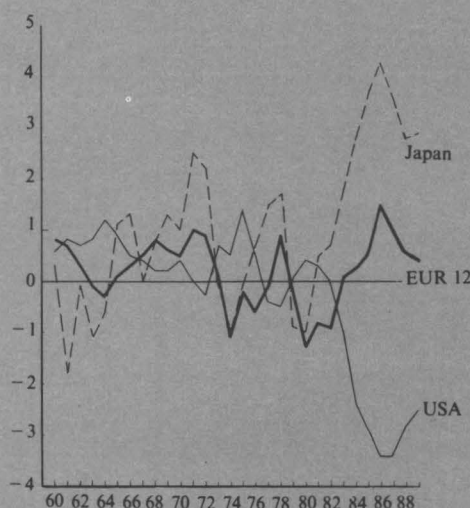
¹ This is a summary of the results of Commission services' autumn forecasting exercise, based on data up to 4 October 1988. The earlier forecasts for 1988-89 were summarized in Supplement A, No. 6, of June 1988.

GRAPH 1: Nominal GDP, Deflator of GDP, real GDP
(percentage change on preceding year, EC 1970-1989)¹



¹ 1988-1989: forecasts.
Source: Commission services.

GRAPH 2: Balance on current transactions as a percentage of GDP¹



¹ 1988-1989: forecasts.
Source: Commission services.

TABLE 1: Gross domestic product, volume (percentage change at constant prices on preceding year, 1961-89)

	1961-73	1974-84	1985	1986	1987	1988 ¹	1989 ¹
B	4,9	1,8	1,4	2,3	1,8	2,9	2,2
DK	4,3	1,7	4,2	3,4	-1,0	0,0	1,7
D	4,4	1,7	2,1	2,6	1,9	3,2	2,5
GR	7,7	2,5	3,0	1,3	-0,4	2,8	2,1
E	7,2	1,7	2,3	3,3	5,2	4,7	3,9
F	5,6	2,3	1,7	2,1	2,3	3,1	2,8
IRL	4,4	3,5	1,1	-0,3	4,1	2,9	3,2
I	5,3	2,3	2,7	2,7	3,1	3,9	3,2
L	4,2	1,8	3,8	2,9	2,4	2,9	2,4
NL	4,8	1,8	2,3	2,4	1,5	2,2	2,3
P	6,9	2,2	3,3	4,3	4,6	4,0	3,6
UK	3,1	1,1	3,7	2,9	4,3	3,8	2,6
EUR	4,8	1,9	2,5	2,6	2,9	3,5	2,8
USA	4,0	2,4	3,1	3,0	3,4	3,9	2,3
JAP	9,6	3,7	4,5	2,4	4,2	5,6	3,8

¹ Forecasts.

Source: Commission services.

TABLE 2: Final domestic demand, volume (percentage change at constant prices on preceding year, 1961-89)

	1961-73	1974-84	1985	1986	1987	1988 ¹	1989 ¹
B	4,8	1,3	1,3	3,2	2,4	3,1	2,2
DK	4,6	0,8	5,7	5,7	-3,2	-1,4	0,7
D	4,5	1,4	1,0	3,7	3,1	3,5	2,4
GR	8,2	1,8	6,1	-0,5	0,2	3,6	2,9
E	7,7	1,0	2,9	5,9	8,0	6,2	5,2
F	5,8	2,0	2,2	3,7	3,3	3,0	2,7
IRL	5,4	2,1	-1,3	0,8	-1,5	-0,1	1,6
I	5,5	1,9	3,2	3,6	4,6	4,4	3,5
L	4,2	1,8	0,7	-0,9	6,1	0,7	2,5
NL	4,9	1,3	2,5	3,9	2,2	1,9	1,9
P	7,5	0,9	0,8	8,4	9,5	6,3	5,5
UK	3,2	1,0	2,9	3,8	4,3	5,3	3,6
EUR	5,0	1,5	2,4	3,9	3,9	4,0	3,2
USA	4,1	2,6	3,5	3,8	3,0	2,8	2,0
JAP	9,9	2,7	3,8	4,0	5,1	7,4	4,2

¹ Forecasts.

Source: Commission services.

TABLE 3: Deflator of gross domestic product (percentage change on preceding year, 1961-89)

	1961-73	1974-84	1985	1986	1987	1988 ¹	1989 ¹
B	4,1	6,8	5,5	3,7	1,6	1,6	2,8
DK	7,0	9,4	5,3	4,9	5,0	4,3	3,1
D	4,3	4,3	2,2	3,1	2,0	1,8	2,3
GR	4,5	17,7	17,8	19,0	14,3	14,3	13,0
E	7,1	15,7	8,7	10,9	5,7	5,2	4,3
F	4,9	10,5	5,7	4,7	2,5	2,7	2,5
IRL	7,1	13,7	5,0	5,6	2,5	2,3	3,2
I	5,4	16,7	8,8	8,0	5,4	4,6	4,1
L	4,3	6,9	3,4	2,6	1,1	2,2	2,7
NL	6,0	5,9	1,7	0,7	-1,0	0,3	1,4
P	4,0	20,5	21,7	17,9	12,1	10,5	8,0
UK	5,1	13,0	6,0	3,5	4,8	5,6	5,6
EUR	5,1	11,1	6,1	5,5	3,9	3,8	3,7
USA	3,6	7,1	3,1	2,6	3,3	3,3	4,6
JAP	6,0	5,3	1,5	1,8	-0,2	0,9	2,2

¹ Forecasts.

Source: Commission services.

TABLE 4: Rates of change of demand components (EUR-12, 1982-89)¹

	Percentage change on preceding period at constant prices						
	1982-87	1988	1989	1988-I	1988-II	1989-I	1989-II
Private consumption	2,3	3,5	2,9	2,9	3,7	2,7	2,7
Government consumption	1,9	1,9	1,8	1,2	2,6	1,6	1,5
Fixed capital formation	1,5	7,1	5,2	7,6	6,8	4,8	4,5
— Construction	0,3	6,2	3,8	6,7	4,5	3,4	3,8
— Equipment	4,1	8,1	6,7	8,6	9,2	6,2	5,3
Change in stocks as % of GDP	0,3	1,0	1,0	1,1	0,9	1,0	0,9
Domestic demand	2,3	4,0	3,2	4,1	3,7	3,1	2,7
Exports of goods and services	3,6	5,3	5,3	3,9	4,8	5,5	5,4
Imports of goods and services	4,4	8,0	6,2	5,9	8,3	5,6	5,3
Gross domestic product	2,1	3,5	2,8	3,8	2,7	3,0	2,7

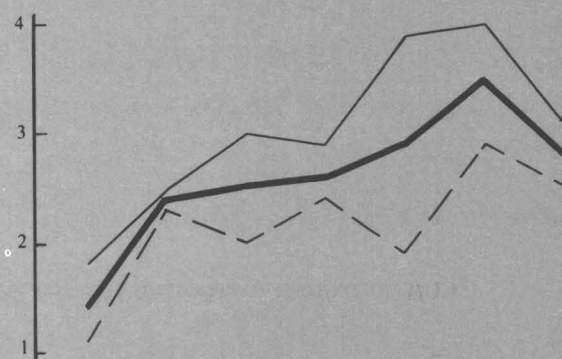
¹ 1988-89: Forecasts. Half-yearly figures at annual rates, seasonally adjusted (1988-I = first half of 1988 etc.).

Source: Commission services.

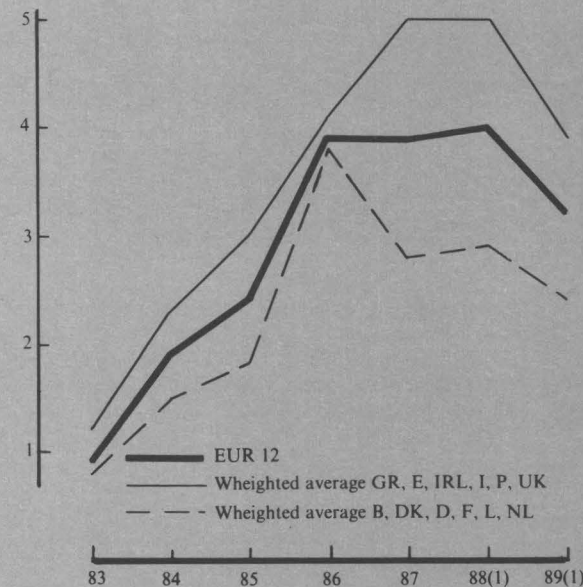
The outlook for the Community. — Like other major industrial countries, the economy of the European Community has shown a remarkable dynamism since the second half of 1987. Growth should continue at a brisk pace throughout the forecast period. The hesitant economic recovery of the years 1982-1983 has become a steady and stable upswing allowing the Community to achieve rates of growth last experienced in 1978/1979, yet with inflation at one third of average levels then. Growth is forecast to be + 3,5% in 1988 and + 2,8% in 1989 in real terms (see table 1).

The contrast with the outlook immediately after the financial turbulence at the end of 1987 is striking. Investment is now

GRAPH 3: Real GDP growth



GRAPH 4: Real domestic demand growth



¹ forecasts.

Source: Commission services.

growing very fast because of favourable economic conditions but also thanks to a remarkably confident business climate. Growth is strong throughout the industrialized world, world trade is expanding rapidly and exchange rates look less unstable. The fact that European currencies are not appreciating against the dollar as much as expected last year may delay progress in reducing international trade imbalances, but in the short term is certainly good news for European exporters.

In the Community, where in 1987 growth was uneven with a large group of Member States growing at about half the rate of the others, the situation is now more balanced (see graphs 3 and 4). Via intra-Community trade, stimuli to growth have

reached the countries where growth was unsatisfactory and there is now better convergence around higher growth rates. This performance is all the more remarkable in that it follows a steady and exceptionally long, though moderate, phase of expansion. In each year since 1981, average growth in the Community has accelerated and, since 1984, it has reached 2,5% or above (see graph 1).

This rather rosy picture is spoiled by the stubbornness of unemployment which will still be at around 11% in 1989. As output is more buoyant than was expected in the previous forecasts, employment growth is also revised upwards somewhat. However, given the increasing labour force, this slightly faster growth of employment has a small effect on unemployment.

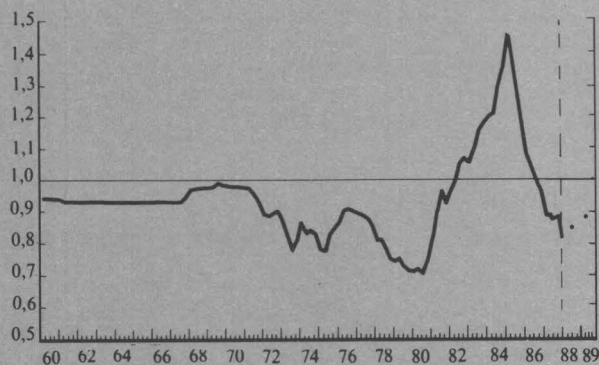
The Community's overall external surplus decreases, but the deterioration of the external position is concentrated in some Member States so that intra-Community divergences in this respect increase. On average in the Community, inflation will accelerate marginally in 1988 and in 1989 under the impact of higher import prices, some increases in indirect taxes and the absence of further reductions in the rate of increase of wage costs.

A very different outlook from that of the beginning of the year.

— The turbulence on the stock exchanges and foreign exchange markets of the end of 1987 prevented the forecasts produced at

GRAPH 5: ECU/USD exchange rate (quarterly averages)¹

ECU per USD



¹ 1988-1989: forecasts (yearly averages).

Source: Commission services.

the beginning of the year from capturing the strength of the upswing which had taken place in the world economy in the second half of 1987.

It was reasoned that the crisis would affect domestic demand via an increase in the savings ratio due to the negative wealth effects resulting from the drop in share prices. This effect was expected to be strongest in the United States. The Community was expected to be affected adversely by the combined effect of a slow down in the growth of the American economy and by the loss of competitiveness vis-à-vis the dollar area produced by the depreciation of the dollar of the last two months of 1987. The Community's exports to the rest of the world were expected to decrease in real terms by 1% in 1988 and to recover marginally in 1989. The domestic economy was sending positive signals, but either these were dismissed as deceptive or it was felt that they would be more than offset by the negative external influences.

It now appears that the forecasts had failed to appraise correctly the confidence of the economic agents which is shown by a comparison of the forecasts for the aggregates most likely to be affected by this factor: investment in equipment and the trend of the savings ratio. Investment in equipment in the Community was forecast to grow in volume by around 4% in 1988, not a particularly negative forecast. The most recent figures put the growth of this aggregate at 8,1% ! The growth of private

TABLE 5: Demand components at constant prices (percentage change on preceding year, EC countries, 1961-88)

	1961-73	1974-84	1985	1986	1987	1988 ¹	1989 ¹
B³							
Private consumption	4,3	1,9	1,8	2,5	2,5	2,7	2,6
Government consumption	5,5	2,2	1,9	0,7	-0,7	0,2	-0,1
Fixed capital formation	5,1	-0,8	1,0	6,5	5,2	7,3	2,7
— Construction	—	-2,8	-0,3	2,0	3,0	7,1	0,8
— Equipment	—	2,9	-0,7	10,8	7,9	7,6	5,0
Exports of goods and services	9,4	3,2	1,1	5,7	4,4	6,0	5,6
Imports of goods and services	9,0	2,3	0,8	7,3	5,3	6,4	5,7
GDP	4,9	1,8	1,4	2,3	1,8	2,9	2,2
DK³							
Private consumption	3,8	1,1	5,3	4,2	-1,0	-1,3	0,8
Government consumption	5,8	3,0	2,5	-0,7	1,6	0,3	-0,5
Fixed capital formation	6,5	-2,2	11,9	16,8	-9,0	-4,0	0,1
— Construction	—	-4,6	7,7	19,3	-1,0	-4,4	-3,1
— Equipment	—	2,2	15,4	14,8	-18,0	-3,4	4,5
Exports of goods and services	6,4	3,9	4,2	0,2	4,9	3,6	4,2
Imports of goods and services	7,1	1,1	8,6	6,5	-1,3	-0,2	1,7
GDP	4,3	1,7	4,2	3,4	-1,0	0,0	1,7
D³							
Private consumption	5,0	2,2	1,9	4,1	3,5	3,0	2,3
Government consumption	3,8	1,5	1,7	2,1	1,6	1,7	1,2
Fixed capital formation	4,0	-0,1	0,1	3,1	1,8	6,2	3,7
— Construction	—	-0,8	-5,7	2,5	0,2	6,7	2,6
— Equipment	—	1,4	10,0	4,3	4,0	5,5	5,2
Exports of goods and services	7,7	4,3	7,6	-0,7	0,4	5,5	4,9
Imports of goods and services	8,8	3,3	4,6	2,7	4,2	6,7	4,8
GDP	4,4	1,7	2,1	2,6	1,9	3,2	2,5
GR²							
Private consumption	6,7	2,7	3,8	0,8	0,8	1,9	1,8
Government consumption	6,2	5,4	2,8	0,0	1,3	6,0	3,4
Fixed capital formation	10,0	-2,2	5,1	-4,8	-3,2	8,8	8,0
— Construction	—	-3,7	2,9	-3,3	-5,0	9,0	8,0
— Equipment	—	0,1	7,6	-6,5	-0,9	8,5	8,0
Exports of goods and services	12,6	6,1	1,3	14,1	9,1	4,3	3,5
Imports of goods and services	12,7	2,2	12,8	3,6	9,2	7,1	6,3
GDP	7,7	2,5	3,0	1,3	-0,4	2,8	2,1
E³							
Private consumption	7,2	1,5	2,2	3,5	5,2	4,6	4,1
Government consumption	4,5	4,8	4,6	5,1	9,0	4,2	4,7
Fixed capital formation	10,4	-1,6	3,8	7,9	13,8	13,0	10,0
— Construction	—	-1,8	2,0	6,6	10,5	12,0	8,6
— Equipment	—	-1,3	8,5	10,4	19,0	14,5	11,9
Exports of goods and services	11,8	6,2	2,7	1,5	7,3	6,4	6,0
Imports of goods and services	17,2	2,0	6,2	15,4	21,7	13,3	10,9
GDP	7,2	1,7	2,3	3,3	5,2	4,7	3,9
F³							
Private consumption	5,5	2,8	2,4	3,4	2,3	2,1	2,1
Government consumption	3,9	3,1	3,2	2,7	3,0	2,0	2,0
Fixed capital formation	7,6	-0,1	1,1	3,0	3,4	6,9	5,4
— Construction	—	-0,8	-0,9	1,9	2,2	4,5	3,4
— Equipment	—	1,1	4,6	3,8	4,4	8,8	6,8
Exports of goods and services	9,4	5,1	2,1	-0,6	1,8	7,2	6,2
Imports of goods and services	10,9	3,2	4,7	6,6	6,4	6,5	5,6
GDP	5,6	2,3	1,7	2,1	2,3	3,1	2,8
IRL³							
Private consumption	4,1	1,4	1,1	2,1	0,1	1,4	1,9
Government consumption	5,0	3,8	-0,3	3,2	-3,3	-4,0	-3,4
Fixed capital formation	10,0	1,9	-4,4	-3,5	-1,0	0,4	3,6
— Construction	—	-0,2	-7,5	-5,3	-6,5	-6,9	1,0
— Equipment	—	3,5	4,9	0,3	3,6	6,0	5,4
Exports of goods and services	7,6	8,0	6,7	2,7	13,3	9,4	7,5
Imports of goods and services	9,2	4,5	2,8	4,3	4,9	5,7	5,7
GDP	4,4	3,5	1,1	-0,3	4,1	2,9	3,2
I³							
Private consumption	5,9	2,1	2,9	3,9	4,3	3,8	3,7
Government consumption	4,1	2,5	3,4	2,8	3,4	3,3	3,1
Fixed capital formation	4,3	0,1	3,3	1,2	5,2	4,9	3,8
— Construction	—	-0,8	-0,4	-0,6	-1,3	1,2	1,7
— Equipment	—	1,9	11,4	5,0	11,5	8,0	5,5
Exports of goods and services	10,2	5,7	3,7	1,4	3,6	6,7	6,5
Imports of goods and services	10,5	3,5	5,4	4,9	10,0	8,5	7,0
GDP	5,3	2,3	2,7	2,7	3,1	3,9	3,2
L³							
Private consumption	4,6	2,5	1,7	3,3	3,6	3,2	3,4
Government consumption	4,0	2,4	1,3	1,8	2,0	1,5	1,5
Fixed capital formation	5,1	-2,0	-3,7	15,8	16,4	-6,3	1,7
— Construction	—	-3,0	—	—	4,6	5,2	1,9
— Equipment	—	-0,9	—	—	35,7	-20,7	1,5
Exports of goods and services	6,1	2,6	9,2	4,2	2,4	6,3	4,1
Imports of goods and services	6,3	2,6	6,2	0,5	6,1	4,3	4,3
GDP	4,2	1,8	3,8	2,9	2,4	2,9	2,4
NL³							
Private consumption	5,6	2,0	1,9	3,1	3,0	1,5	2,0
Government consumption	2,8	2,2	1,3	1,8	1,1	0,2	-0,2
Fixed capital formation	5,3	-0,9	5,2	7,2	1,6	3,3	2,9
— Construction	-2,4	-2,0	-3,5	4,1	2,9	4,9	0,3
— Equipment	—	1,3	17,4	9,8	0,1	1,4	6,1
Exports of goods and services	9,0	2,9	5,4	0,7	4,3	5,6	4,4
Imports of goods and services	9,2	2,1	5,9	3,2	5,6	5,2	3,9
GDP	4,8	1,8	2,3	2,4	1,5	2,2	2,3
P⁴							
Private consumption	6,5	1,3	1,0	7,0	6,8	4,8	3,7
Government consumption	8,3	6,5	1,7	1,0	2,5	2,3	1,0
Fixed capital formation	7,8	-1,3	-3,0	9,5	19,6	12,8	11,0
— Construction	—	—	—	—	10,5	10,0	10,0
— Equipment	—	—	—	—	30,0	15,5	12,0
Exports of goods and services	9,6	4,1	11,0	7,0	10,6	6,3	6,3
Imports of goods and services	10,6	0,4	3,9	17,2	24,1	11,8	10,2
GDP	6,9	2,2	3,3	4,3	4,6	4,0	3,6
UK³							
Private consumption	2,9	1,3	3,7	5,8	5,1	5,4	3,6
Government consumption	2,5	1,5	-0,1	0,9	0,9	0,8	1,2
Fixed capital formation	4,6	0,3	3,1	0,3	5,5	9,6	6,3
— Construction	—	-0,6	-2,9	4,4	4,2	9,8	5,8
— Equipment	—	1,4	9,9	-3,9	6,9	9,3	6,9
Exports of goods and services	5,1	3,0	5,5	3,2	5,5	1,9	4,2
Imports of goods and services	5,1	2,4	2,7	6,2	7,3	11,2	6,9
GDP	3,1	1,1	3,7	2,9	4,3	3,8	2,6

¹ Forecasts.

² 1970 prices.

³ 1980 prices.

⁴ 1986 prices.

Source: Commission services.

TABLE 6: **Total investment** (percentage change on preceding year, 1961-89)

	1961-73	1974-84	1985	1986	1987	1988 ¹	1989 ¹
B	5,1	-0,8	1,0	6,5	5,2	7,3	2,7
DK	6,5	-2,2	11,9	16,8	-9,0	-4,0	0,1
D	4,0	-0,1	0,1	3,1	1,8	6,2	3,7
GR	10,0	-2,2	5,1	-4,8	-3,2	8,8	8,0
E	10,4	-1,6	3,8	7,9	13,8	13,0	10,0
F	7,6	-0,1	1,1	3,0	3,4	6,9	5,4
IRL	10,0	1,9	-4,4	-3,5	-1,0	0,4	3,6
I	4,3	0,1	3,3	1,2	5,2	4,9	3,8
L	5,1	-2,0	-3,7	15,8	16,4	-6,3	1,7
NL	5,3	-0,9	5,2	7,2	1,6	3,3	2,9
P	7,8	-1,3	-3,0	9,5	19,6	12,8	11,0
UK	4,6	0,3	3,1	0,3	5,5	9,6	6,3
EUR	5,6	-0,3	2,1	3,1	4,6	7,1	5,2
USA	4,5	1,6	5,8	2,5	2,0	6,3	3,9
JAP	13,9	1,6	5,6	6,5	10,1	12,1	4,4

¹ Forecasts.

Source: Commission services.

TABLE 7: **Investment in equipment, volume** (percentage change on preceding year, 1971-89)

	1971-81	1982-84	1985	1986	1987	1988 ¹	1989 ¹
B	2,3	5,3	-0,7	10,8	7,9	7,6	5,0
DK	0,1	11,9	15,4	14,8	-18,0	-3,4	4,5
D	1,6	-0,7	10,0	4,3	4,0	5,5	5,2
GR	3,2	0,0	7,6	-6,5	-0,9	8,5	8,0
E	2,5	-3,4	8,5	10,4	19,0	14,5	11,9
F	3,7	-0,6	4,6	3,8	4,4	8,8	6,8
IRL	7,4	-0,8	4,9	0,3	3,6	6,0	5,4
I	3,4	0,4	11,4	5,0	11,5	8,0	5,5
L	1,3	-2,8	—	19,4	35,7	-20,7	1,5
NL	0,2	6,4	17,4	9,8	0,1	1,4	6,1
P	—	—	—	—	30,0	15,5	12,0
UK	0,9	5,3	9,9	-3,9	6,9	9,3	6,9
EUR	2,4	1,4	9,1	3,3	7,2	8,1	6,7

¹ Forecasts.² EUR-10 up to 1986, EUR-12 from 1987 onwards.

Source: Commission services.

TABLE 8: **Investment in construction, volume** (percentage change on preceding year, 1971-89)

	1971-81	1982-84	1985	1986	1987	1988 ¹	1989 ¹
B	-0,5	-5,9	-0,3	2,0	3,0	7,1	0,8
DK	-4,0	2,7	7,7	19,3	-1,0	-4,4	-3,1
D	0,4	-0,4	-5,7	2,5	0,2	6,7	2,6
GR	0,9	-5,2	2,9	-3,3	-5,0	9,0	8,0
E	0,8	-2,4	2,0	6,6	10,5	12,0	8,6
F	1,4	-3,1	-0,9	1,9	2,2	4,5	3,4
IRL	5,0	-10,2	-7,5	-5,3	-6,5	-6,9	1,0
I	-0,6	-1,8	-0,4	-0,6	-1,3	1,2	1,7
L	1,9	-6,6	—	7,7	4,6	5,2	1,9
NL	-1,5	-2,1	-3,5	4,1	2,9	4,9	0,3
P	—	—	—	—	10,5	10,0	10,0
UK	-2,0	6,9	-2,9	4,4	4,2	9,8	5,8
EUR	-0,3	-0,2	-2,4	2,4	2,2	6,2	3,8

¹ Forecasts.¹ EUR-10 up to 1986 EUR-12 from 1987 onwards.

Source: Commission services.

TABLE 9: **Export markets and export performance** (percentage change on preceding year, 1987-89)

	Export markets			Export performance ¹		
	1987	1988 ²	1989 ²	1987	1988 ²	1989 ²
B	6,9	8,8	6,4	-2,0	-2,1	-0,3
DK	5,1	6,5	4,9	-2,0	-2,9	-0,8
D	7,0	8,6	6,3	-5,7	-2,6	-1,2
GR	4,7	6,7	5,3	-2,7	-2,7	-1,7
E	6,3	7,7	6,0	0,7	-1,6	-0,2
F	6,7	8,6	6,3	-3,9	-0,2	0,8
IRL	6,7	9,0	6,1	6,5	0,8	1,6
I	6,1	8,8	6,5	-2,8	-1,7	0,0
L ³	—	—	—	—	—	—
NL	4,6	6,8	5,3	-0,6	-0,6	-0,6
P	7,8	9,2	6,7	2,1	-1,5	-0,2
UK	5,0	7,2	5,9	0,2	-5,3	-1,9
EUR	6,2	8,2	6,1	-2,6	-2,3	-0,6
USA	6,8	10,5	6,8	7,6	10,9	2,1
JAP	7,3	9,4	7,5	-6,4	-4,0	-1,7

¹ Indices of export volume growth divided by indices of market growth (includes intra community trade).² Forecasts.³ Included in the figures for Belgium.

Source: Commission services.

consumption in the same year was put in February at 2,7% in real terms. This forecast discounted a stabilization or a marginal increase in the savings ratio after the big reduction between 1986 and 1987. Private consumption is now projected to increase by 3,5% and the savings ratio is expected to decline again this year and next.

Investment in construction benefited from the exceptionally mild winter and from the effects of support measures introduced in some countries. At the beginning of the year it had been forecast to grow by 2,5% in 1988, this figure is now revised to 6,2%.

The information coming in on world trade shows that it has improved enormously during the first months of the year. The growth of the Community's export markets in 1988 was previously expected at around 2,5%, whereas the most recent figures put their growth at almost 6%. Moreover, last year's depreciation of the dollar was followed by a strong appreciation in the course of this year with a marked positive impact on the competitiveness of European goods.

The combination of these factors appears to have provided the stimuli that have pushed economic agents to make the most of an economic environment that had already been improving for some time.

A new source of expansion: investment. — The sources of expansion have changed over the last few years: in 1984 and 1985 growth was primarily led by *exports*; in 1986, by an increase in *private consumption* following the improvement in the terms of trade as a consequence of the fall in oil prices and an appreciation in European currencies. Since 1987, and to a greater extent in 1988, *investment*, where the rate of growth until then had been relatively moderate, has tended to be the most dynamic component of domestic demand (see table 6). Furthermore, the upturn in investment is occurring in all Community countries. In 1989 the share of equipment investment in GDP at constant prices should be 10,8% for the Community as a whole against 8,8% in 1982.

Many factors explain this upturn in investment:

- The economies of the industrialized countries are beginning to reap the benefits of structural policies reflected in greater flexibility in the economy. The profitability of capital and self-financing have improved significantly thanks to the moderate growth of wages in recent years. In 1986 and 1987 the improvement was accelerated by the reduction in energy prices.
- Domestic demand has been, and is expected to remain strong. The rate of capacity utilization has progressively increased so that it is now reaching record levels in manufacturing industry in many countries. With capacity utilization higher than in 1979 and much improved profitability, the incentive to engage in capacity augmenting investment is stronger. Indeed, throughout Europe there is now evidence of a progressive, and welcome, shift from capital-deepening to capital-widening investment.
- The improvement in the international environment and the acceleration in world trade.
- The need for companies to improve their competitive position in the light of the completion of the internal market.

Total *investment* is expected to increase in real terms by 4,6% in 1987, by 7,1% in 1988 and by over 5% in 1989. Double digit increases should be recorded again in Spain and Portugal. *Investment in equipment* should grow strongly throughout the period, reflecting the solidity of the factors behind its growth (see table 7). The rates of increase are particularly high in the two Iberian countries and in France where the financial situation of enterprises has improved significantly.

Investment in construction too has accelerated strongly in 1988 (6,2%) thanks to a pick up in private construction activity and in business investment and stimulated by exceptionally favourable weather conditions (see table 8). In 1989 the forecast in the absence of another exceptional winter, sees investment in construction increasing at a slower pace, but still well above the trend of the last few years.

Domestic demand still strong. — In 1988, *real domestic demand* will increase (see table 2) at around the same level as in 1987 (+4%). In 1989, due to a certain deceleration of private consumption and to a return of construction investment to more normal rates of expansion, the growth of domestic demand is likely to increase less rapidly. It will, however, in every year since 1986, still grow faster than GDP. After a period of stagnation, the volume of Community *exports* to the rest of the world should increase moderately — 1 1/4% — in 1988 and by around 3% in 1989. *Imports* from outside the Community should on the other hand continue to increase strongly: 9% in 1988 and around 6% in 1989. This development is in line with the needs of international adjustment.

As has already been explained, investment is the most dynamic component of domestic demand, but *private consumption* - which represents over 60% of total domestic demand - also remains buoyant (see table 10). It slows down only marginally during the forecast period to 3,5% in 1988 and 2,9% in 1989 after 3,8% in 1987 when it was supported by the positive effects of the sharp decline of import prices. Given the expected upward trend in 1989 of these prices, the growth of private consumption will be determined by the increase of household's disposable income and by the changes in the savings ratio.

Nominal disposable income will increase by 6,7% in 1988 and 6,5% in 1989. As fiscal policy changes almost cancel out at the Community level, the increase is entirely explained by the projections of per capita wages — just over 5% per year on average (see table 11) — and of employment. Given the expected trend in the rate of inflation, real disposable income will increase by 3,1% in 1988 and 2,7% in 1989. The savings ratio, which came down by a full point between 1986 and 1987 (from 15,2% to 14,2% of disposable income), is expected to go on declining slightly this year and next. This reflects the improvement in the economic climate.

The growth of *public consumption* will continue to be constrained by the consolidation efforts of most governments and should remain below the rate of expansion of output (see table 13).

TABLE 10: **Private consumption, volume** (percentage change on preceding year, 1961-89)

	1961-73	1974-84	1985	1986	1987	1988 ¹	1989 ¹
B	4,3	1,9	1,8	2,5	2,5	2,7	2,6
DK	3,8	1,1	5,3	4,2	-1,0	-1,3	0,8
D	5,0	2,2	1,9	4,1	3,5	3,0	2,3
GR	6,7	2,7	3,8	0,8	0,8	1,9	1,8
E	7,2	1,5	2,2	3,5	5,2	4,6	4,1
F	5,5	2,8	2,4	3,4	2,3	2,1	2,1
IRL	4,1	1,4	1,1	2,1	0,1	1,4	1,9
I	5,9	2,1	2,9	3,9	4,3	3,8	3,7
L	4,6	2,5	1,7	3,3	3,6	3,2	3,4
NL	5,6	2,0	1,9	3,1	3,0	1,5	2,0
P	6,5	1,3	1,0	7,0	6,8	4,8	3,7
UK	2,9	1,3	3,7	5,8	5,1	5,4	3,6
EUR	5,0	2,0	2,6	4,0	3,8	3,5	2,9
USA	4,2	2,7	4,6	4,2	2,7	2,4	1,9
JAP	8,7	3,3	2,6	2,7	3,9	5,3	4,4

¹ Forecasts.

Source: Commission services.

TABLE 11: **Compensation of employees per head** (percentage change on preceding year, 1961-89)

	1961-73	1974-84	1985	1986	1987	1988 ¹	1989 ¹
B	8,9	9,8	4,8	3,8	3,3	2,2	3,8
DK	10,7	10,6	4,5	4,7	8,2	4,4	2,5
D	9,2	6,2	3,0	3,9	2,9	3,0	2,5
GR	10,2	21,9	22,6	15,7	12,5	17,0	14,0
E	14,6	18,8	10,1	8,3	7,5	6,5	6,1
F	9,9	13,7	6,6	4,0	3,3	3,8	3,8
IRL	11,3	17,5	6,4	5,1	5,1	3,5	3,9
I	11,6	18,9	10,2	7,7	8,7	7,0	7,5
L	7,4	9,7	3,8	5,0	4,0	3,4	5,0
NL	11,4	7,2	1,4	1,6	1,3	1,9	1,0
P	12,0	23,0	22,4	17,0	13,9	11,0	10,0
UK	8,3	14,4	6,7	7,3	7,0	7,5	7,8
EUR	10,0	13,3	6,9	6,1	5,5	5,3	5,2

¹ Forecasts.

Source: Commission services.

TABLE 12: **Real compensation of employees per head¹** (percentage change on preceding year, 1961-89)

	1961-73	1974-84	1985	1986	1987	1988 ²	1989 ²
B	5,1	2,1	-0,4	3,0	1,7	0,9	1,4
DK	3,8	0,4	-0,3	1,0	3,9	-0,4	-1,2
D	5,4	1,5	0,9	4,1	2,4	1,7	0,0
GR	6,5	3,7	3,3	-5,4	-2,8	3,3	1,1
E	7,5	2,3	1,7	-0,4	2,1	1,7	1,7
F	5,1	2,7	0,9	1,5	0,1	1,1	1,1
IRL	5,0	2,1	1,8	1,5	1,9	1,4	1,1
I	6,5	1,9	0,8	1,5	3,7	2,0	2,8
L	4,2	1,8	-1,4	4,3	3,4	2,0	2,7
NL	6,0	1,1	-1,1	1,4	1,7	1,0	-0,3
P	8,3	0,4	2,8	4,5	3,4	1,5	2,8
UK	3,3	1,6	1,4	3,6	3,1	3,0	3,0
EUR	5,1	1,9	0,9	2,3	2,1	1,7	1,4

¹ Deflated by private consumption prices.

² Forecasts.

Source: Commission services.

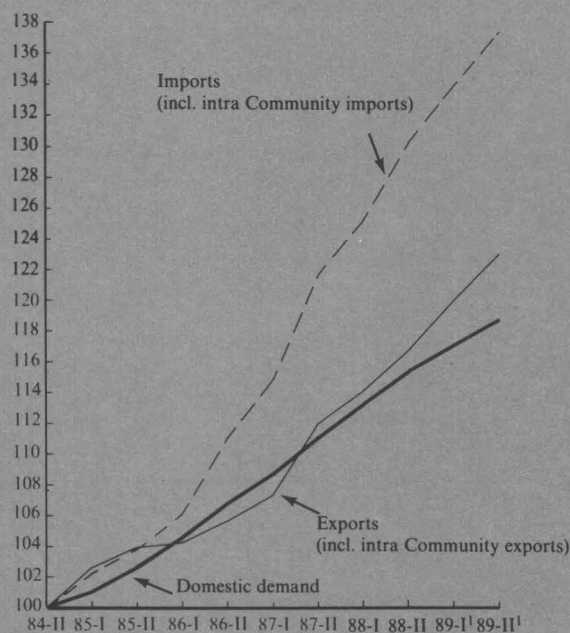
TABLE 13: **Public consumption, volume** (percentage change on preceding year, 1961-89)

	1961-73	1974-84	1985	1986	1987	1988 ¹	1989 ¹
B	5,5	2,2	1,9	0,7	-0,7	0,2	-0,1
DK	5,8	3,0	2,5	-0,7	1,6	0,3	-0,5
D	3,8	1,5	1,7	2,1	1,6	1,7	1,2
GR	6,2	5,4	2,8	0,0	1,3	6,0	3,4
E	4,5	4,8	4,6	5,1	9,0	4,2	4,7
F	3,9	3,1	3,2	2,7	3,0	2,0	2,0
IRL	5,0	3,8	-0,3	3,2	-3,3	-4,0	-3,4
I	4,1	2,5	3,4	2,8	3,4	3,3	3,1
L	4,0	2,4	1,3	1,8	2,0	1,5	1,5
NL	2,8	2,2	1,3	1,8	1,1	0,2	-0,2
P	8,3	6,5	1,7	1,0	2,5	2,3	1,0
UK	2,5	1,5	-0,1	0,9	0,9	0,8	1,2
EUR	3,6	2,4	2,1	2,1	2,4	1,9	1,8
USA	3,1	2,9	4,9	4,3	2,6	0,8	1,9
JAP	6,1	4,0	2,0	6,6	-0,6	2,3	2,8

¹ Forecasts.

Source: Commission services.

GRAPH 6: **Domestic and external demand, EUR 12, volumes** (84-II = 100)



¹ 1988-1989: forecasts.

Source: Commission services.

TABLE 14: **Total employment** (percentage change on preceding year, 1961-89)

	1961-73	1974-84	1985	1986	1987	1988 ¹	1989 ¹
B	0,6	-0,4	0,8	1,0	0,3	1,2	0,7
DK	1,1	0,4	2,9	2,3	1,1	-0,3	0,2
D	0,2	-0,5	0,7	1,0	0,7	0,5	0,8
GR	-0,5	1,0	1,0	0,1	-0,1	1,0	0,7
E	0,7	-1,4	-1,4	1,9	3,0	2,6	2,1
F	0,7	0,0	-0,4	0,3	0,1	0,6	0,5
IRL	0,1	0,3	-2,2	-0,4	-0,1	0,0	0,4
I	-0,4	0,7	1,4	0,8	-0,1	0,5	0,6
L	1,1	0,4	1,4	2,6	2,7	1,9	1,6
NL	0,9	-0,3	1,3	1,8	1,2	0,9	0,9
P	-0,5	0,5	-0,3	0,0	2,7	1,7	0,9
UK	0,3	-0,4	1,6	0,4	1,7	1,9	1,0
EUR	0,3	-0,2	0,6	0,8	0,9	1,1	0,9
USA	1,9	1,7	2,4	1,7	2,6	2,3	1,6
JAP	1,3	0,7	0,7	0,9	1,0	1,0	0,8

¹ Forecasts.

Source: Commission services.

TABLE 15: **Employment in manufacturing industry** (percentage change on preceding year)

	1972-83	1984	1985	1986	1987	1988 ¹	1989 ¹
B	-2,9	-1,0	-1,3	-1,4	-1,3	-0,3	-0,5
DK	-1,5	5,1	6,8	2,2	-1,4	-1,3	0,8
D	-1,7	-1,0	1,0	1,5	-0,1	-0,2	0,2
GR	—	-2,4	-0,6	0,0	-1,5	1,5	1,5
E	—	-2,6	-2,1	1,6	2,5	1,5	1,5
F	-1,1	-2,8	-3,1	-2,3	-2,7	-0,5	-0,5
IRL	0,4	-4,1	-2,8	0,5	-0,5	0,0	1,0
I	-0,3	-3,6	-2,0	-0,9	-1,4	0,3	0,3
L	-1,5	-1,8	-0,3	1,6	-0,3	-0,3	-0,3
NL	-2,5	-1,1	1,6	1,6	0,7	-0,2	0,7
P	—	—	-0,5	0,4	4,4	3,1	1,1
UK	-3,0	-1,9	-0,7	-2,1	-1,3	-0,1	-0,4
EUR	-1,7 ²	-2,1	-0,7	-0,3	-0,6	0,2	0,2

¹ Forecasts.

² EUR-9.

Source: Commission services.

TABLE 16: **Number of unemployed as a percentage of civilian labour force** (1961-89)

	1961-73	1974-84	1985	1986	1987	1988 ¹	1989 ¹
B	2,2	9,1	13,6	12,6	12,3	11,5	11,0
DK	1,1	6,9	8,7	7,4	7,6	8,5	9,0
D	0,8	4,9	8,4	8,1	8,1	8,1	8,2
GR	—	1,1	7,8	7,4	7,4	7,4	7,6
E	—	8,7	19,5	21,0	20,5	20,0	19,6
F	1,1	6,2	10,5	10,6	10,8	10,7	10,8
IRL	4,8	10,1	17,9	18,2	19,2	18,7	18,2
I	5,2	7,5	12,9	13,7	14,0	15,0	14,5
L	0,0	0,8	1,7	1,4	1,6	1,4	1,3
NL	1,3	7,9	13,3	12,1	11,5	11,3	10,9
P	—	5,3	7,7	8,7	7,2	6,5	6,4
UK	2,1	6,8	12,0	11,9	10,6	8,6	7,2
EUR-12	—	6,5	11,6	11,9	11,6	11,3	10,9
EUR-9	2,2	6,1	11,1	11,1	10,8	10,5	10,1
USA	4,9	7,5	7,2	7,0	6,2	5,5	5,5
JAP	1,3	2,2	2,6	2,8	2,8	2,5	2,6

¹ Forecasts.

Source: Commission services.

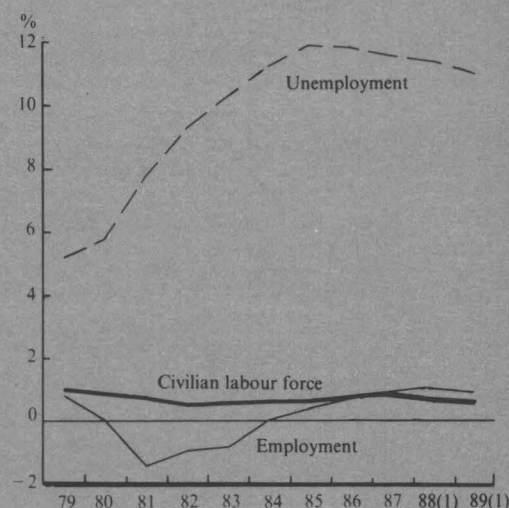
TABLE 17: **Real GDP per occupied person** (percentage change on preceding year, 1961-89)

	1961-73	1974-84	1985	1986	1987	1988 ¹	1989 ¹
B	4,3	2,2	0,6	1,3	1,5	1,7	1,5
DK	3,2	1,4	1,2	1,0	-2,1	0,3	1,5
D	4,1	2,3	1,4	1,6	1,2	2,7	1,7
GR	8,2	1,5	1,9	1,3	-0,3	1,8	1,4
E	6,5	3,2	3,7	1,4	2,1	2,0	1,8
F	4,9	2,3	2,1	1,8	2,2	2,5	2,3
IRL	4,3	3,2	3,3	0,1	4,2	2,9	2,8
I	5,7	1,6	1,3	1,9	3,2	3,4	2,6
L	3,1	1,4	2,4	0,3	-0,3	1,0	0,8
NL	3,9	2,1	1,0	0,6	0,3	1,3	1,4
P	7,4	1,8	3,6	4,3	1,9	2,3	2,7
UK	2,9	1,5	2,1	2,5	2,6	1,9	1,6
EUR	4,5	2,0	1,8	1,8	2,0	2,4	1,9
USA	2,0	0,7	0,7	1,2	0,8	1,6	0,7
JAP	8,2	3,0	3,8	1,6	3,2	4,5	3,0

¹ Forecasts.

Source: Commission services.

GRAPH 7: **Labour force, employment and unemployment, EUR-12, annual change in % except unemployment rate**



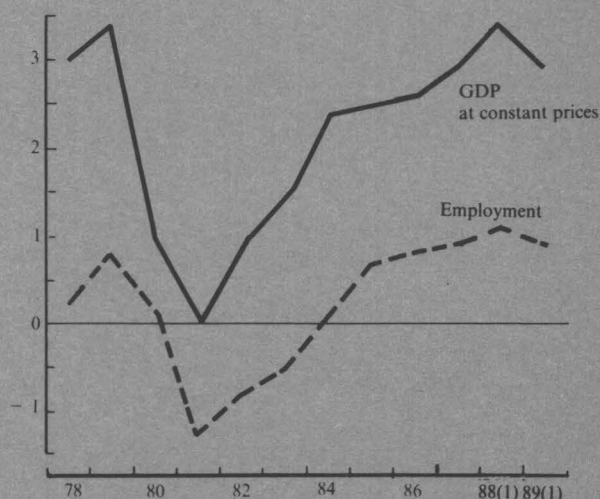
¹ Forecasts.

Source: Commission services.

Employment increases, but unemployment remains high. — Since 1985, the annual trend in employment creation has stabilized at a historically high level, almost 1% per annum (see table 14 and graph 8). The increases expected for 1988 and 1989 (1,1% and 0,9% respectively) should turn the years 1985-1989 — with a cumulative increase of almost 4,5% — into the best five-year period for employment since the beginning of the sixties. Nevertheless, the unemployment rate will fall only slightly, as it has done since 1985, and it will still be at around 11% of the active population in 1989 (see table 16).

The development of unemployment is affected by changes in demography and participation rates (see graph 7). These two factors are moving in opposite directions. The working age population should continue to increase at the slow pace of recent years (around one quarter of a point per annum). The overall participation rate (64% in 1987, well below the figures for the USA and Japan) on the other hand, after a long decline between 1973 and 1985, is recovering. As a result the supply of labour will be increasing by more than half a point each year over the

GRAPH 8: **GDP and employment growth in the Community, annual percentage growth rate**



¹ Forecasts.

Source: Commission services.

forecast period. So a positive phenomenon — the increase in the participation rate — makes it more difficult to reduce unemployment in the Community.

Convergence of inflation rates towards a low level. — Inflation in the Community remains at a low level in spite of a small acceleration from 3,3% in 1987 to 3,5% in 1988 and 3,7% in 1989 (see table 18). There is, however, a growing perception, especially in some Member States, of a greater inflationary risk. This is due to a certain number of factors:

- i) The disinflation process is no longer benefitting from an improvement in the terms of trade, as was the case in recent years. The terms of trade are not likely to improve further in 1989 due to the effect of the recent appreciation of the dollar and the increase in raw material prices (excluding oil). Furthermore, average raw material prices (excluding oil), which only represent about 7% of Community imports, appear to be stabilizing after their spectacular increase during the first half of 1988 (about + 27% in dollar terms). In addition, the reduction in oil prices has until now largely compensated for the increases in other raw material prices;
- ii) Domestically generated inflationary pressures are appearing in certain countries, especially in those where the rate of capacity utilization is already extremely high, such as the United Kingdom, Italy and Spain. It must be noted, however, that the remarkable investment performance of recent years is bound to have a positive effect in time. In the three countries just mentioned, the growth of wages is also serving to heighten inflationary pressures. Nevertheless, on average, in the Community, the increase in nominal unit labour costs (see table 19) should remain moderate in 1988 and 1989 (around 3%).
- iii) During 1987, the interventions which financed the United States' current external deficit contributed to a rapid monetary expansion. A significant volume of liquidity was also injected into the economy by the monetary authorities following the upheavals which affected the stock market and foreign exchanges at the end of last year. The monetary authorities have, however, regained credibility in recent years, which is helpful in stabilizing expectations. The increases in short-term rates which occurred in recent months should moreover allow this credibility to improve and demonstrate the monetary authorities' determination to preserve achievements in terms of stability as well as help to slow down monetary expansion.

On the whole, in the months ahead, the risk of a renewed, sizeable acceleration of inflation in the Community (whether

TABLE 18: Deflator of private consumption (percentage change on preceding year, 1961-89)

	1961-73	1974-84	1985	1986	1987	1988 ¹	1989 ¹
B	3,7	7,5	5,2	0,8	1,6	1,3	2,4
DK	6,6	10,1	4,9	3,6	4,1	4,8	3,7
D	3,6	4,6	2,1	-0,2	0,5	1,3	2,5
GR	3,5	17,5	18,7	22,2	15,8	13,3	12,8
E	6,6	16,1	8,3	8,7	5,3	4,7	4,3
F	4,7	10,8	5,7	2,5	3,2	2,7	2,7
IRL	6,0	15,0	4,5	3,6	3,1	2,1	2,8
I	4,8	16,6	9,3	6,1	4,8	4,9	4,6
L	3,0	7,8	5,2	0,6	0,6	1,4	2,2
NL	5,0	6,0	2,5	0,2	-0,4	0,9	1,3
P	3,4	22,6	19,0	12,0	10,2	9,4	7,0
UK	4,8	12,6	5,2	3,6	3,8	4,4	4,7
EUR	4,6	11,3	5,9	3,6	3,3	3,5	3,7
USA	3,1	7,3	3,1	2,1	4,5	4,3	5,0
JAP	6,2	6,7	2,1	0,6	-0,2	1,1	2,0

¹ Forecasts.

Source: Commission services.

TABLE 19: Unit labour costs, whole economy¹ (percentage change on preceding year, 1961-89)

	1961-73	1974-84	1985	1986	1987	1988 ²	1989 ²
B	4,5	7,4	4,1	2,5	1,9	0,7	2,3
DK	7,3	9,1	3,3	3,6	10,4	2,6	1,9
D	4,8	3,8	1,6	2,3	1,9	0,3	0,7
GR	1,9	20,1	20,2	14,2	12,8	14,9	12,5
E	7,7	15,1	6,1	6,8	5,2	4,4	4,1
F	4,9	11,2	4,5	2,1	1,1	1,3	1,5
IRL	6,7	13,8	2,9	5,0	0,9	0,5	1,1
I	5,6	17,0	8,7	5,7	5,4	3,9	5,0
L	4,1	8,1	1,4	4,7	4,2	2,3	3,9
NL	7,1	5,0	0,4	1,0	1,0	0,6	-0,3
P	4,3	20,9	18,1	12,2	11,9	8,6	7,1
UK	5,3	12,7	4,5	4,7	4,2	5,5	6,1
EUR	5,2	11,1	5,0	4,2	3,5	2,9	3,2

¹ Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total employment.

² Forecasts.

Source: Commission services.

TABLE 20: Real unit labour costs¹ (indices 1980 = 100)

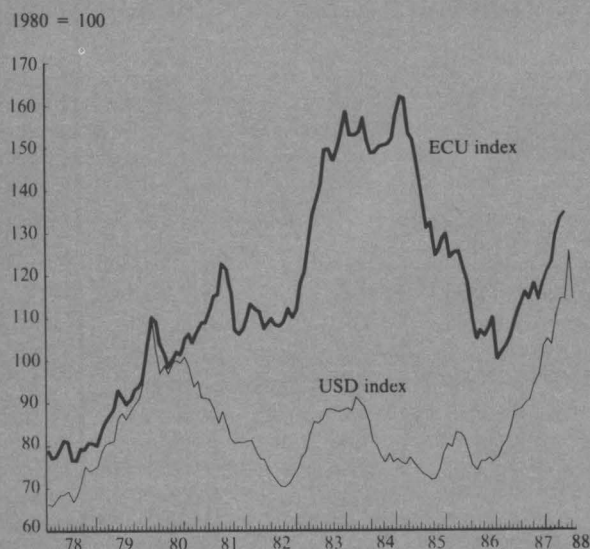
	1961-70	1975	1979	1981	1987	1988 ²	1989 ²
B	87,5	96,8	98,8	101,1	94,5	93,5	93,1
DK	98,3	102,7	98,4	98,8	95,6	95,4	93,5
D	96,1	102,6	98,3	100,3	93,7	92,3	91,0
GR	104,4	91,7	101,8	106,3	105,7	106,3	105,9
E	95,4	100,4	101,7	100,5	87,2	86,5	86,4
F	93,0	98,3	98,1	100,8	93,6	92,3	91,4
IRL	96,2	100,3	96,7	96,5	88,8	87,3	85,5
I	94,4	105,5	101,5	102,2	99,2	98,1	98,7
L	84,1	101,4	99,1	102,1	93,1	93,4	94,7
NL	93,9	103,3	100,3	97,3	90,5	90,8	89,2
P	85,4	121,3	101,6	101,4	86,5	85,0	84,3
UK	98,2	108,1	98,2	99,4	96,0	96,0	96,4
EUR	96,3	103,4	99,3	100,6	94,6	93,8	93,3
USA	96,9	98,2	99,0	98,6	98,2	98,4	97,7
JAP	93,6	104,1	101,1	100,2	97,7	97,2	96,4

¹ Nominal unit labour costs divided by GDP deflator.

² Forecasts.

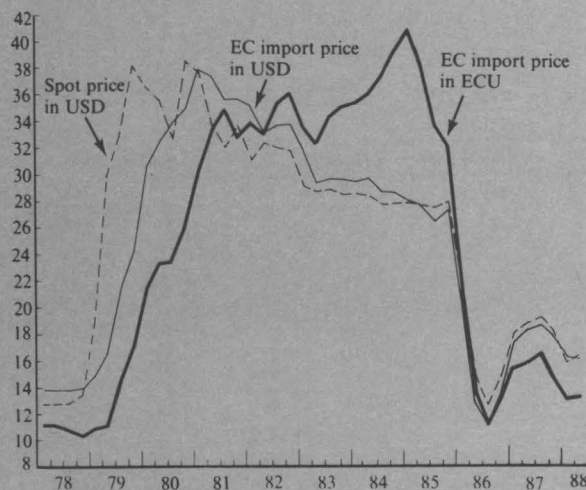
Source: Commission services.

GRAPH 9: Non-oil commodity price indices in ECU's and US dollars



Source: Commission services.

GRAPH 10: Crude oil prices



Source: Commission services.

TABLE 21: Exports of goods, volume (percentage change on preceding year, 1961-89)

	1961-73	1974-84	1985	1986	1987	1988 ¹	1989 ¹
B	10,2	2,6	1,0	6,3	4,8	6,5	6,1
DK	6,8	4,8	4,6	0,1	3,0	3,4	4,1
D	8,0	4,4	7,9	-0,6	0,9	5,8	5,0
GR	—	—	-0,1	16,9	1,9	3,8	3,5
E	—	—	3,0	-3,5	7,0	6,0	5,8
F	10,3	5,0	2,0	-0,1	2,5	8,4	7,1
IRL	8,1	8,9	6,7	4,0	13,6	9,8	7,8
I	11,8	6,2	2,7	5,0	3,2	7,0	6,5
L	5,5	1,5	11,6	2,1	2,0	7,2	4,6
NL	10,3	3,1	6,0	0,8	3,9	6,1	4,6
P	—	—	—	—	10,0	7,5	6,5
UK	5,1	3,7	5,5	3,7	5,2	1,5	3,9
EUR	8,9 ²	4,3 ³	4,7	1,9	3,5	5,7	5,5
USA	6,7 ⁴	3,2	3,3	7,8	15,0	22,5	9,0
JAP	16,8 ⁴	6,7	4,0	-2,0	0,4	5,1	5,7

¹ Forecasts.² Total excluding Spain and Portugal.³ Total excluding Portugal.⁴ USA, Japan: average 1964-73.

Source: Commission services.

TABLE 22: Imports of goods, volume (percentage change on preceding year, 1961-89)

	1961-73	1974-84	1985	1986	1987	1988 ¹	1989 ¹
B	9,3	2,0	0,1	8,0	5,9	7,0	6,1
DK	7,9	0,9	8,4	6,5	-3,0	-1,0	1,3
D	8,8	3,6	5,2	3,5	4,4	7,5	5,3
GR	—	—	28,8	4,2	10,8	7,2	6,4
E	—	—	5,8	16,9	23,2	14,0	11,0
F	11,7	3,3	4,3	6,8	6,7	7,2	6,0
IRL	9,2	4,3	3,1	4,0	4,0	5,2	5,5
I	10,4	3,5	4,4	7,5	9,9	8,5	7,0
L	6,1	2,3	6,6	0,9	6,4	4,5	4,3
NL	9,4	1,9	6,2	3,1	5,9	5,5	4,0
P	—	—	—	—	25,6	11,5	10,0
UK	5,2	2,5	3,4	6,4	6,9	11,8	7,1
EUR	9,1 ²	2,5 ³	5,0	6,5	8,0	8,5	6,4
USA	9,4 ⁴	-0,4	5,4	13,9	6,5	5,4	4,1
JAP	14,4 ⁴	-0,2	-1,9	10,6	9,1	16,6	7,3

¹ Forecasts.² Total excluding Spain and Portugal.³ Total excluding Portugal.⁴ USA, Japan: average 1964-73.

Source: Commission services.

TABLE 23: Balance on current account (as a percentage of GDP, 1961-89)

	1961-73	1974-84	1985	1986	1987	1988 ¹	1989 ¹
B	1,1	-1,6	0,7	2,5	1,9	1,8	1,9
DK	-2,0	-3,4	-4,7	-5,2	-3,0	-2,5	-2,3
D	0,7	0,6	2,4	4,4	4,0	4,0	4,2
GR	-2,9	-2,5	-8,2	-5,5	-3,4	-2,8	-3,7
E	-0,2	-1,7	1,6	1,7	0,1	-0,8	-2,1
F	0,2	-0,5	0,1	0,4	-0,3	0,1	0,1
IRL	-2,5	-8,4	-3,8	-2,8	1,3	2,6	3,5
I	1,5	-0,7	-0,9	0,4	-0,1	-0,4	-0,6
L	6,8	25,9	43,3	43,7	38,0	38,6	36,5
NL	0,5	1,7	4,3	2,9	1,7	1,6	1,8
P	0,4	-7,2	1,7	3,9	1,8	-0,1	-1,7
UK	-0,1	-0,2	0,5	0,0	-0,6	-3,1	-3,4
EUR	0,4	-0,3	0,7	1,5	1,0	0,5	0,3
USA	0,5	-0,1	-2,9	-3,4	-3,4	-2,8	-2,5
JAP	0,5	0,6	3,7	4,3	3,6	2,8	2,9

¹ Forecasts.

Source: Commission services.

TABLE 24: Trade balances (fob-fob) EC, USA and Japan

	1985	1986	1987	1988 ¹	1989 ¹
in % of GDP					
EUR	0,3	1,3	0,9	0,4	0,2
USA	-2,9	-3,3	-3,5	-2,6	-2,3
Japan	4,0	4,5	4,0	3,3	3,2
in billions of US dollars					
EUR	9,9	45,0	36,7	19,7	10,4
USA	-124,4	-142,6	-158,2	-126,1	-116,0
Japan	56,0	92,7	96,4	94,2	96,8
in billions of ECU					
EUR	13,0	45,8	31,8	16,9	9,2
USA	-163,8	-145,2	-137,2	-107,9	-102,9
Japan	73,8	94,4	83,6	80,7	85,8

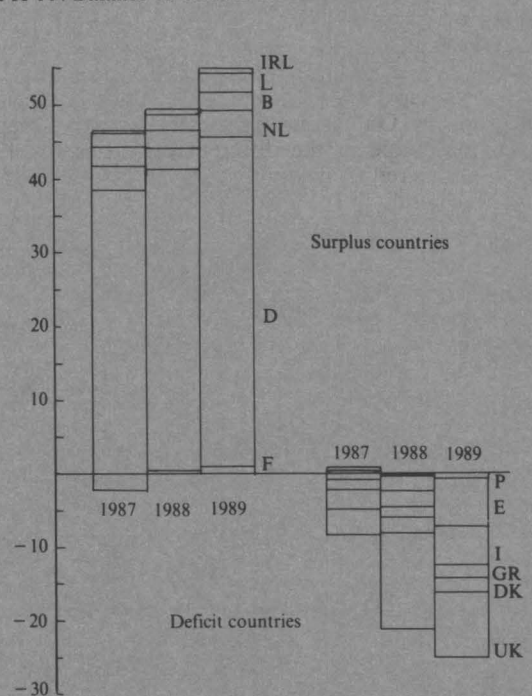
¹ Forecasts.

Source: Commission services.

due to an increase in import prices or to an acceleration in wage costs) should not be overestimated. At just above 5 % in both years, per capita wages will in 1988 and 1989 increase slightly less than in 1987. In addition, the recent increases in short-term interest rates should lead to a slowdown in monetary expansion.

The convergence in inflation rates will increase in 1988 and 1989 especially among the countries participating in the EMS exchange rate mechanism where the gap between the highest and lowest rate will be in 1989 3,3 points against more than 5 points in 1987.

The Community's external surplus falls while the internal imbalances widen. — After remaining flat in 1987, exports to the rest of the world should show a moderate increase in 1988 — just over 1 % in real terms — and should grow by some 3 % in 1989. Intra-Community trade will be more buoyant so that overall exports should increase by almost 6 % in 1988 and around 5 1/2% in 1989 (see table 21). Imports from outside the Community, on the other hand, will grow fast and overall imports, which already were very dynamic in 1987 (+8 % in

GRAPH 11: Balance on current account in ECU billions¹¹ 1988-1989: forecasts.

Source: Commission services.

real terms), will still grow by around 9 % in 1988 and by over 6 % in 1989 (see table 22). The Community's trade surplus will therefore drop in real terms by over 30 billion dollars between 1987 and 1989 (around three quarters of a point of GDP).

After reaching a peak in 1986 with a surplus of 1,3 points of GDP, the Community's trade balance (fob-fob) continues to decline throughout the forecast period. The surplus will amount to 0,4% of GDP in 1988 and only 0,2% in 1989. The current account balance follows a similar pattern at a level a shade higher than the trade balance: 0,5% of GDP in 1988 and 0,3% in 1989 (see table 23).

The reduction in the Community's overall surplus as part of the international adjustment process goes hand in hand with important divergences within the Community and between the EMS countries (see graph 11). The evolution of external balances presents both a positive and a disquieting aspect. All of those countries, with the exception of Greece, who in recent years had worrying external positions, such as at the beginning of this decade Belgium, Ireland, Portugal, and more recently Denmark, have experienced a substantial recovery. But a signifi-

cant gap is opening up between the external balances of the countries participating in the EMS exchange rate mechanism and the others; furthermore, within the EMS, the gap between the surplus and deficit countries is widening in particular because the German surplus is not declining (over 4% of GDP in 1989). It is important to assess these developments from a number of angles.

First, the corollary of the catching-up process of the poorer countries, where the need and the scope for investment are relatively greater, is the appearance of a temporary deterioration of the external situation. Deficits in these countries will be sustainable in the medium term provided that the deterioration of the current balance is matched domestically by a strengthening of productive investment and goes hand in hand with sound external financing. This, for example, is the case in Spain and Portugal where the deterioration in current transactions (from broad equilibrium in 1987 to deficits of between 1 3/4% and 2% of GDP in 1989) has been accompanied by a strong upturn in productive investment financed by private capital inflows. Besides, the level of deficits in these two countries remains moderate. On the other hand, it is normal and even desirable for countries with a higher level of development and with surpluses on their external accounts to export capital to the less prosperous countries, thereby fostering investment and assisting the catching-up process.

The current external positions are also related to the different cyclical developments. The growth differentials between the countries participating in the exchange rate mechanism and the others have, since 1986, largely contributed to the divergent external balances. On current trends, the growth dynamic as it is now taking shape in the different countries for 1989 is a first step towards renewed equilibrium. The growth differentials between those countries participating in the exchange rate mechanism and those who do not participate are narrowing. Two factors help to explain this development. (a) the EMS countries are now fully benefiting from a sustained expansion of demand from their partners where supply is beginning to be constrained by a relatively higher rate of capacity utilization. (b) the acceleration in productive investment is particularly beneficial for countries such as Germany which are traditional exporters of equipment goods.

Budgetary consolidation continues and general government borrowing requirements come down. — For the Community as a whole, the general government borrowing requirement will decrease from 4.2% of GDP in 1987 to 3.8% in 1988 and 3.5% in 1989 (see table 27). The budgetary consolidation will be underpinned by higher tax revenues as a result of the higher level of activity, but general government receipts as a percentage of GDP are expected to remain stable between 1987 and 1989 (see table 25). The tax cuts being made in some countries offset, in the Community average, the 'fiscal drag'. But where efforts are being particularly successful is on the expenditure side with general government expenditure as a percentage of GDP declining from 47.9% to 47.1% between 1987 and 1989 (see table 26).

Little progress will be made in reducing the large differences in the budgetary positions of Member States. In 1989, the budget balances in the Community will vary between the deficits of 13.3% of GDP projected for Greece, 10% for Italy to a surplus equal to one and a half points of GDP in Denmark. In the UK the general government accounts will be just about balanced.

The Community's external environment. — The international economic environment is characterized by an unusual buoyancy in economic activity and trade, with low inflation. Despite the international payments imbalances and the October 1987 stock market crash, growth in industrial countries has accelerated. The rapid expansion of monetary liquidity in 1987 (through foreign exchange intervention at first and later to assist financial institutions after October 1987), the favourable effects of the oil price fall, as well as the success of structural policies, are now reflected in faster-than-expected growth. Growth in the industrial countries is now in its sixth year (near 4% in real terms in 1988) and despite some weakening, output in the OECD area could still increase by some 3% in 1989 (see table 28).

TABLE 25: Total public receipts (as a percentage of GDP, 1972-89)

	1972-83	1984	1985	1986	1987	1988 ¹	1989 ¹
B	42,8	47,1	47,3	46,0	46,2	45,5	45,6
DK	50,0	56,6	57,4	58,9	59,9	60,8	60,6
D	44,5	46,1	46,4	45,6	45,1	44,5	45,0
GR	29,1	34,2	34,5	35,3	37,6	36,3	37,8
E	27,7	33,8	35,1	36,5	37,9	38,6	39,0
F	43,4	49,1	49,2	48,8	49,3	48,9	48,8
IRL	—	42,4	42,6	42,4	42,7	42,5	41,7
I	31,0	38,0	38,5	39,0	39,6	40,5	40,0
L	50,2	54,3	55,5	55,7	56,0	55,9	56,5
NL	50,7	54,5	55,1	53,6	54,6	54,5	51,8
P	—	34,4	33,1	37,5	35,0	35,1	35,0
UK	39,1	42,0	41,8	40,6	39,8	39,5	39,8
EUR	40,1 ²	43,6	43,9	43,6	43,7	43,6	43,6

¹ Forecasts.

² EUR-9.

Source: Commission services.

TABLE 26: Total public expenditure (as a percentage of GDP, 1972-89)

	1972-83	1984	1985	1986	1987	1988 ¹	1989 ¹
B	49,6	56,4	55,6	54,8	53,4	52,7	51,6
DK	51,5	60,7	59,5	55,8	57,8	59,9	59,8
D	46,9	48,0	47,5	46,9	46,9	46,7	46,5
GR	—	44,3	48,1	46,1	47,1	48,4	49,8
E	29,3	39,3	42,1	42,2	41,5	41,6	41,9
F	44,4	51,8	52,1	51,7	51,8	50,8	50,4
IRL	—	52,2	53,9	53,0	51,4	48,8	46,2
I	39,4	49,5	50,8	50,5	50,1	50,4	50,7
L	48,9	51,4	50,0	49,7	50,8	50,6	50,1
NL	53,7	60,7	59,8	59,4	60,8	59,6	57,4
P	—	46,4	43,1	45,3	43,4	43,3	42,7
UK	42,4	45,9	44,6	43,0	41,3	39,8	39,0
EUR	43,8 ²	48,9	49,1	48,4	47,9	47,4	47,1

¹ Forecasts.

² EUR-9.

Source: Commission services.

TABLE 27: General government lending or borrowing (-) as a percentage of GDP (EC countries, EC, USA, JAP, 1972-89)

	1972-83	1984	1985	1986	1987	1988 ¹	1989 ¹
B	-6,8	-9,3	-8,3	-8,9	-7,2	-7,1	-6,5
DK	-1,5	-4,1	-2,1	3,1	2,1	0,9	1,4
D	-2,4	-1,9	-1,1	-1,3	-1,8	-2,3	-1,3
GR	—	-10,1	-13,6	-10,8	-9,5	-12,1	-13,3
E	-1,6	-5,5	-7,0	-5,7	-3,6	-3,0	-2,9
F	-1,0	-2,7	-2,9	-2,9	-2,5	-1,9	-1,8
IRL	—	-9,8	-11,3	-10,6	-8,8	-6,2	-5,9
I	-8,5	-11,5	-12,3	-11,4	-10,5	-10,0	-10,0
L	1,3	2,9	5,5	6,0	5,2	5,3	6,1
NL	-3,0	-6,2	-4,7	-5,9	-6,2	-5,1	-4,5
P	—	-12,0	-10,0	-7,8	-8,4	-8,1	-7,8
UK	-3,3	-3,9	-2,8	-2,4	-1,4	-0,3	-0,1
EUR	-3,6 ²	-5,3	-5,2	-4,7	-4,2	-3,8	-3,5
USA	-1,4	-3,9	-4,3	-3,5	-2,3	-1,8	-1,7
JAP	-2,8	-2,1	-0,8	-1,5	-0,3	-0,1	0,2

¹ Forecasts.

² EUR-9.

Source: Commission services.

TABLE 28: World GDP/GNP (at constant prices)

	Percentage change on preceding year					
	1984	1985	1986	1987	1988 ¹	1989 ¹
EUR	2,1	2,4	2,6	2,9	3,5	2,8
USA	6,9	3,0	2,9	3,4	3,9	2,3
Canada	5,6	4,0	3,2	4,0	4,4	2,8
Japan	5,0	5,0	2,5	4,2	5,6	3,8
Other OECD	4,5	2,6	2,7	3,2	3,2	2,5
OECD total	4,4	3,1	2,7	3,3	3,9	2,8
OPEC	1,4	-0,4	-0,9	0,0	1,1	2,6
Other developing countries	4,7	4,5	4,6	4,4	4,2	4,6
of which: Asian NICs ²	8,7	3,6	10,2	11,8	8,5	7,5
: Other NICs ³	3,2	2,2	5,4	2,8	1,3	3,4
: Other LDCs	5,0	5,8	3,3	4,0	5,0	4,6
CPE ⁴	3,9	3,3	4,2	2,5	2,0	2,5
World	4,3	3,2	3,1	3,3	3,6	3,0
World excluding EC	5,1	3,4	3,3	3,4	3,7	3,1

¹ Forecasts.

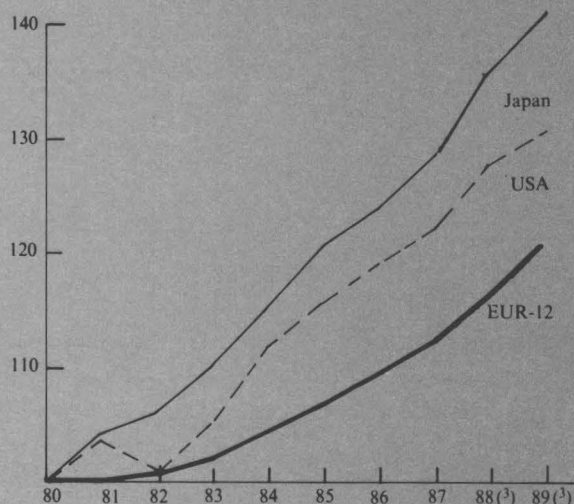
² Newly industrialized countries: Hongkong, South-Korea, Singapore, Taiwan.

³ Newly industrialized countries: Argentina, Brazil, Israel, Philippines, Thailand, South-Africa, Yugoslavia.

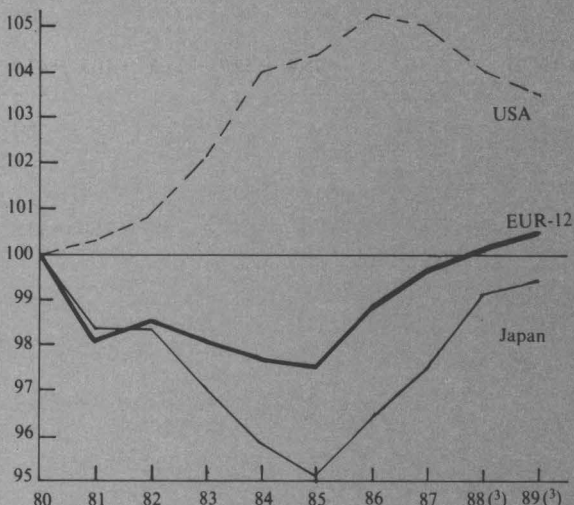
⁴ Centrally planned economies: excluding China, which is in other LDCs. (Excluding intra-Comecon trade).

Source: Commission services.

GRAPH 12: GDP/GNP¹ (in volume) EUR-12, USA, Japan
Index 100 in 1980



GRAPH 13: Growth gap between domestic demand and GDP/
GNP¹ (volume)²
Index 100 in 1980



¹ EUR-12 GDP, USA and Japan GNP.

² Index domestic demand/Index GDP, GNP. A figure more than 100 denotes a more rapid growth in domestic demand than GDP/GNP and corresponds to a deterioration of the real external balance.

³ Forecasts.

Source: Eurostat and Commission services.

USA: easing of demand pressure in perspective. — The American economy has been growing strongly — though unevenly — since 1983. GNP increased by 3 1/2% in 1987 and should grow by almost 4% in 1988 because domestic demand is still strong, but more especially because exports are booming (up by over 20% in real terms). In 1989 the rate of growth should slow down to 2 1/4% as domestic demand slackens and the export boom loses strength.

Capacity limits are now being reached in many industries and the unemployment rate is only slightly higher than in the 1960s. Yet, despite this and the massive dollar depreciation since 1985 (March 1985 to March 1988 : — 51%), the inflation rate is forecast to be just over 4% in 1988 and to reach 5% in 1989.

The good export performance is having its effect on the trade deficit which should come down as a percentage of GDP by 1 1/2 points between 1987 and 1989 (from — 3,5% to — 2,1%). The reduction in the current account deficit is less pronounced (from — 3,4% of GDP in 1987 to — 2,4% in 1989) as the burden of servicing the growing external debt begins to be felt.

Japanese economy growing fast but the external adjustment is weakening. — The Japanese economy seems to have adjusted to the considerable yen appreciation of the last three years. Domestic demand is expected to grow at a rate of more than 7% in 1988 and export prospects have improved. As in the rest of the industrialized world, growth is underpinned by a remarkable investment performance (up by more than 12% in real terms). Despite more rapid import growth (+ 16% in real terms), real GNP will increase by about 5 1/2%.

In 1989, the main domestic sources of growth will slow down and real domestic demand will expand by some 4%, and GNP by 3,8%. Inflation may accelerate somewhat and reach the still very low rate of 2%. The current account surplus will start to increase again both in absolute and relative terms.

Buoyancy of world trade despite mixed signals from the other areas. — Economic growth in the developing countries is likely to average between 4 and 4 1/2% in both 1988 and 1989. However, this average conceals great diversity. While the Asian Newly Industrialized Countries (NICs), major exporters of manufactured products, enjoy GNP growth rates of over 7%, oil-producing countries are recovering slowly, but the loss in export revenues following the weakness of the oil prices will constrain imports. Exporters of raw materials seem to receive a moderate growth-promoting stimulus from the buoyancy of activity in the developed world and the significant increase in non-oil commodity prices.

World trade, measured by import volumes, is growing at a rate of around 8% in 1988 and should increase by 6% in 1989 (see table 29). The Community's export markets should, however increase somewhat less: by around 6% in 1988 and 5% in 1989 (see table 9).

The trade imbalances among the three major industrial areas are slowly narrowing both in real and nominal terms, but the pace of the adjustment will slow down in 1989 (see table 30 and 31 and graph 2). Up to now most of the geographical counterpart of the improvement in the US deficit has not been located

TABLE 29: World imports of goods (at constant prices)

	Percentage change on preceding year					
	1984	1985	1986	1987	1988 ¹	1989 ¹
EUR	7,1	5,5	6,8	8,0	8,5	6,4
USA	22,9	5,4	13,9	6,5	5,4	4,1
Canada	19,6	9,8	8,0	8,2	11,0	5,0
Japan	12,2	6,5	9,9	9,1	16,6	7,3
Other OECD	10,7	6,8	4,5	5,0	5,4	4,1
OECD total	11,8	5,9	8,5	7,4	8,2	5,6
OPEC	-8,9	-15,3	-21,1	-11,0	1,3	2,5
Other developing countries	6,7	2,9	-0,3	6,8	9,6	8,8
of which: Asian NICs ²	10,7	2,4	11,0	21,0	20,5	16,0
: Other NICs ³	-1,6	-6,9	-1,6	6,1	1,0	2,0
: Other LDCs	7,8	7,4	-7,2	-4,0	2,6	3,5
CPE ⁴	4,7	3,0	-2,0	-3,0	1,5	2,5
World	9,0	3,9	5,0	6,1	8,0	6,0
World (excluding EUR)	10,2	3,0	3,9	5,0	7,6	5,7

¹ Forecasts.

² Newly industrialized countries: Hongkong, South-Korea, Singapore, Taiwan.

³ Newly industrialized countries: Argentina, Brazil, Israel, Philippines, Thailand, South-Africa, Yugoslavia.

⁴ Centrally planned economies excluding China, which is in other LDCs. (Excluding intra-Comecon trade).

Source: Commission services.

in the main surplus countries (Japan, Germany, or the Asian NICs) but in other OECD or LDC countries. Most of these countries either already face deficits, or are in fragile current account positions. In the Community, the reduction in the overall surplus with the rest of the world therefore reflects rapidly deteriorating current account positions in member countries other than Germany, Belgium and the Netherlands, particularly those with faster growth of domestic demand than the EC average.

Main assumptions and risks. — The Commission's economic forecast is based on current policies and on the usual technical assumption (see table 32) that exchange rates remain stable at the levels reached at the time the forecast was produced. When comparing yearly average figures, given the dollar's strong appreciation in recent months, this results in a slight appreciation of the ECU against the USD for the 1988 average, followed by a small depreciation (around 3%) in 1989. Oil prices are expected to come down substantially in 1988 (averaging USD 15,3 for the year against USD 18 in 1987) and to increase marginally in 1989 to USD 15,5 (see table 33).

The main risks to the forecast relate to the speed of the international adjustment process since exchange rate stability crucially depends on its continuation and credibility. As has been seen, adjustment is proceeding only slowly. It must also be borne in mind that, on the assumption that current output trends, current policy and current exchange rates are maintained, the real adjustment process among the industrialized countries, particularly in the United States and Japan, could lose much of its impetus in late 1989 and beyond.

The question is whether, on the basis of the export performance forecast, the US trade deficit will shrink sufficiently to convince markets that the current account deficit will be significantly reduced in the medium term. In this regard, the continuing build-up of US external indebtedness is of particular concern, as it will impose a significant debt servicing cost to be added to the required US payments' adjustment. The longer the current account imbalance is continued, the larger the improvement in the merchandise trade balance will need to be in order to compensate for the increased interest payments.

A new bout of instability on the world exchange markets could have negative repercussions on the economic performance of the Community. The trends outlined in this forecast depend basically on two factors — the continued growth of investment in equipment and a new further fall in the savings ratio — which could be severely affected by a change in the present very confident economic climate.

As for specific aggregates, it should be pointed out that the inflation forecast is particularly fragile since it rests largely on factors such as oil and raw material prices, exchange rate stability and the continuation of the present policy of wage moderation.

10 October 1988.

TABLE 30: **World trade balances fob-fob**
(in billions of US dollars)

	1984	1985	1986	1987	1988 ¹	1989 ¹
EUR	1,8	9,9	45,0	36,7	19,7	10,4
USA	-112,5	-124,4	-142,6	-158,2	-126,1	-116,0
Canada	16,7	13,3	7,5	8,8	7,0	6,7
Japan	44,3	56,0	92,7	96,4	94,2	96,8
Other OECD	-0,4	-2,1	-9,8	-7,3	-6,1	-5,3
OECD Total	-50,1	-47,3	-7,1	-23,7	-11,2	-7,4
OPEC	55,2	57,0	10,0	34,5	22,8	24,3
Other developing countries	-0,4	-5,3	3,2	12,4	16,9	11,8
of which: Asian NICs ²	2,9	7,9	17,5	24,1	25,9	22,9
: Other NICs ³	13,4	18,6	16,1	12,2	16,4	17,5
: Other LDCs	-16,7	-31,8	-30,4	-23,9	-25,4	-28,5
CPE ⁴	15,8	9,1	13,9	12,3	11,8	12,0
Errors and omissions	20,4	13,5	20,0	35,5	40,3	40,7

¹ Forecasts.

² Newly industrialized countries: Hongkong, South-Korea, Singapore, Taiwan.

³ Newly industrialized countries: Argentina, Brazil, Israel, Philippines, Thailand, South-Africa, Yugoslavia.

⁴ Centrally planned economies excluding China, which is in other LDCs. (Excluding intra-Comecon trade).

Source: Commission services.

TABLE 31: **World balances of current account**
(in billions of US dollars)

	1984	1985	1986	1987	1988 ¹	1989 ¹
EUR	-2,9	14,0	52,6	42,4	24,1	15,7
USA	-107,8	-117,7	-133,7	-154,0	-135,2	-130,9
Canada	4,2	-1,0	-6,7	-7,2	-8,0	-9,6
Japan	35,1	49,2	85,7	87,1	78,9	86,2
Other OECD	-4,0	-4,3	-12,5	-9,7	-7,7	-6,7
OECD Total	-75,4	-59,7	-14,5	-41,3	-47,9	-45,3
OPEC	-7,1	3,4	-26,1	-9,5	-21,2	-21,7
Other developing countries	-30,4	-26,0	-9,3	1,3	4,7	-0,2
of which: Asian NICs ²	-7,1	1,0	21,5	29,9	34,4	33,4
: Other NICs ³	3,4	11,7	0,6	-4,9	-2,3	-2,0
: Other LDCs	-26,7	-38,7	-31,4	-22,9	-27,4	-31,5
CPE ⁴	10,9	5,2	10,4	7,7	8,2	8,0
Errors and omissions	-102,0	-77,1	-39,5	-41,8	-56,3	-59,2

¹ Forecasts.

² Newly industrialized countries: Hongkong, South-Korea, Singapore, Taiwan.

³ Newly industrialized countries: Argentina, Brazil, Israel, Philippines, Thailand, South-Africa, Yugoslavia.

⁴ Centrally planned economies excluding China, which is in other LDCs. (Excluding intra-Comecon trade).

Source: Commission services.

TABLE 32: **Interest and exchange rates assumption**

	1984	1985	1986	1987	1988 ¹	1989 ¹
Annual rates (percentage)						
Rates of interest (US)						
— Short-term ²	9,5	7,5	6,0	5,9	6,9	7,5
— Long-term ³	12,1	10,8	8,1	8,7	9,2	9,2
Change on preceding year (percentage)						
Exchange rate of USD						
— Vis-à-vis ECU ⁴	13,4	3,7	-22,7	-14,8	-1,3	3,6
— Vis-à-vis YEN ⁴	0,0	0,1	-29,3	-14,0	-10,1	0,1

¹ Forecasts.

² 13-week US Treasury Bills.

³ US bonds over 10 years.

⁴ + (—) signifies an appreciating (depreciating) USD.

Source: Commission services.

TABLE 33: **World export prices¹**

	Percentage change on preceding year					
	1984	1985	1986	1987	1988 ²	1989 ²
Fuels	-3,5	-2,4	-46,9	19,0	-13,8	1,3
Other primary commodities	-1,5	-10,5	5,1	7,0	19,3	3,5
Manufactures	-3,7	-1,2	17,4	11,6	4,4	0,8

¹ In US dollars.

² Forecasts.

Source: United Nations and forecasts by Commission services.

TABLE 34: **Contributions to real GDP growth¹** (EC countries and EC, 1983-89)

		1983	1984	1985	1986	1987	1988 ²	1989 ²
B	Final domestic demand	-1,6	1,4	1,6	2,7	2,3	3,0	2,1
	Stockbuilding	-0,7	0,7	-0,4	0,4	0,0	0,0	0,0
	Foreign balance	2,4	0,1	0,2	-0,8	-0,5	-0,1	0,0
DK	Final domestic demand	1,7	2,9	5,5	5,1	-2,0	-1,4	0,3
	Stockbuilding	-0,3	1,0	0,1	0,5	-1,3	0,0	0,3
	Foreign balance	1,1	-0,5	-1,4	-2,2	2,2	1,4	1,0
D	Final domestic demand	1,7	1,5	1,4	3,4	2,6	3,3	2,3
	Stockbuilding	0,6	0,4	-0,4	0,1	0,3	0,1	0,1
	Foreign balance	-0,7	0,9	1,1	-0,9	-1,0	-0,2	0,1
GR	Final domestic demand	0,8	0,3	4,0	-0,5	0,3	3,0	3,1
	Stockbuilding	-1,4	1,1	0,1	0,6	-0,1	0,2	0,1
	Foreign balance	-0,5	3,2	-3,6	1,9	-0,7	-1,1	-1,1
E	Final domestic demand	0,2	-1,0	2,8	4,5	7,6	6,6	5,8
	Stockbuilding	-0,3	0,4	0,0	1,2	0,6	0,0	-0,3
	Foreign balance	1,9	2,4	-0,5	-2,4	-3,0	-1,9	-1,6
F	Final domestic demand	0,2	0,4	2,3	3,2	2,7	3,1	2,8
	Stockbuilding	-0,9	0,1	-0,1	0,6	0,7	0,0	0,0
	Foreign balance	1,4	0,9	-0,5	-1,6	-1,1	0,0	0,0
IRL	Final domestic demand	-2,6	-1,1	-0,5	1,0	-0,8	0,2	1,3
	Stockbuilding	-0,6	1,3	-0,8	-0,2	-0,7	-0,3	0,2
	Foreign balance	2,5	3,1	2,4	-1,1	5,6	2,9	1,7
I	Final domestic demand	0,2	2,8	3,0	3,1	4,4	4,0	3,7
	Stockbuilding	-0,7	1,8	0,2	0,6	0,3	0,6	-0,1
	Foreign balance	0,9	-1,0	-0,4	-0,9	-1,6	-0,7	-0,4
L	Final domestic demand	-2,5	1,2	0,4	5,0	5,7	0,5	2,5
	Stockbuilding	2,8	2,9	0,3	-5,8	0,0	0,2	-0,1
	Foreign balance	2,6	2,4	3,1	3,7	-3,4	2,2	0,0
NL	Final domestic demand	1,1	1,5	2,3	3,5	2,3	1,6	1,7
	Stockbuilding	0,4	0,2	0,1	0,2	-0,2	0,2	0,2
	Foreign balance	-0,1	1,5	0,0	-1,4	-0,6	0,3	0,4
P	Final domestic demand	-2,5	-6,6	0,2	6,7	9,1	6,8	5,6
	Stockbuilding	-3,7	-0,3	0,5	0,9	0,7	0,1	0,4
	Foreign balance	8,4	5,6	2,5	-4,2	-5,2	-2,8	-2,5
UK	Final domestic demand	3,7	2,9	2,8	3,7	4,3	5,2	3,7
	Stockbuilding	0,8	-0,2	0,1	0,0	0,0	0,1	0,0
	Foreign balance	-0,9	-0,7	0,8	-0,8	-0,5	-2,8	-1,0
EUR	Final domestic demand	1,1	1,4	2,4	3,4	3,6	3,9	3,2
	Stockbuilding	-0,2	0,5	0,0	0,4	0,3	0,2	0,0
	Foreign balance	0,5	0,5	0,1	-1,2	-1,2	-0,9	-0,4

¹ Change as percentage of GDP of preceding period.² Forecasts.

Source: Commission services.

TABLE 35: **Gross national product at current market prices** (percentage change on preceding year, 1961-89)

	1961-73	1974-84	1985	1986	1987	1988 ¹	1989 ¹
B	9,2	8,6	6,9	6,4	3,6	4,7	5,1
DK	11,6	10,9	9,7	8,6	4,0	4,3	4,7
D	8,9	6,1	4,2	5,6	3,9	5,2	4,8
GR	12,5	20,3	20,3	20,0	14,1	17,9	15,1
E	14,8	17,5	11,6	14,9	11,3	10,1	8,3
F	10,7	13,0	7,5	7,1	4,8	5,9	5,3
IRL	11,7	16,6	4,5	5,8	7,5	4,0	6,5
I	11,0	19,2	11,8	11,1	8,8	8,7	7,5
L	9,0	11,8	7,4	5,9	2,5	3,6	3,8
NL	11,1	7,7	4,6	2,7	0,6	2,5	3,8
P	11,2	22,4	26,7	25,7	18,3	15,2	11,9
UK	8,5	14,2	9,9	6,7	9,4	9,5	8,4
EUR	10,1	11,0	7,4	6,0	5,1	7,3	6,4
USA	7,7	9,7	6,1	5,5	6,7	7,3	7,0
JAP	16,3	9,3	6,3	4,3	4,0	6,5	6,1

¹ Forecasts.

Source: Commission services.

TABLE A.1: Industrial production (a) — Percentage change on preceding period (s.a.)

	1983	1984	1985	1986	1987	1987			1988		1987	1988						Change over 12 months % (b)
						II	III	IV	I	II		Dec.	Jan.	Feb.	March	April	May	
B	2.0	2.5	2.5	0.8	1.6	2.6	-0.3	0.9	1.6	:	0.1	7.3	-7.0	1.8	1.2	-2.0	:	-1.9
DK	3.2	9.7	4.2	4.2	-3.1	-1.6	0.9	0.4	1.2	1.4	4.3	-6.1	3.2	3.9	-4.2	0.4	5.7	7.6
D	0.7	3.2	5.3	1.9	0.2	1.6	0.2	0.8	0.8	0.5	0.1	-0.1	0.9	0.5	-0.7	0.3	1.8	5.2
GR	-0.1	1.6	3.4	-0.2	-1.7	-1.3	-0.3	2.4	5.4	:	2.8	0.7	1.8	0.5	-4.1	3.2	:	7.8
E	2.7	0.8	2.0	3.1	4.6	2.7	2.2	-0.2	-0.6	:	-1.8	-3.5	5.5	3.5	-4.1	3.2	:	6.6
F	0.0	2.0	1.0	1.0	2.0	2.3	0.6	1.0	0.6	0.3	1.0	0.0	0.0	0.0	-0.9	1.0	1.9	(2.8)
IRL	7.9	9.9	3.5	3.2	9.7	8.8	0.4	4.1	2.8	:	-5.6	9.0	-4.5	0.6	-1.2	2.7	:	5.2
I	-3.2	3.4	1.2	2.8	3.9	1.8	-0.8	2.2	2.4	0.1	-0.5	5.1	-2.6	-1.1	4.3	-4.0	0.9	4.3
L	5.4	13.3	6.9	2.8	0.8	3.8	-2.1	5.7	2.9	:	7.4	1.1	-1.6	0.5	2.6	-0.3	:	5.9
NL	3.2	5.2	3.9	0.0	0.9	-3.4	-0.6	2.5	-2.2	-1.3	-5.4	1.0	-0.9	0.0	-1.9	0.0	2.9	0.0
P	1.6	-0.1	10.9	5.7	2.4	4.2	0.6	-1.1	3.4	:	1.3	3.7	-1.3	-3.4	0.9	:	:	2.9
UK	3.6	1.4	4.6	1.4	3.2	0.6	2.0	1.1	-1.0	1.6	0.1	0.1	-2.6	1.6	1.0	1.3	-1.4	5.0
EUR 12	0.9	2.3	3.3	1.9	2.0	1.5	0.1	1.4	0.7	(0.9)	-0.2	0.8	-0.6	1.1	(-0.4)	(0.5)	(1.2)	(4.1)
USA	7.8	12.3	2.1	2.1	4.4	1.2	1.9	1.8	1.2	:	0.8	0.3	0.1	0.4	(0.5)	(0.5)	:	(6.3)
JAP	3.0	9.4	3.7	-0.2	3.0	0.0	3.6	3.5	3.2	:	1.1	0.6	2.4	0.5	(-0.9)	(-2.3)	(3.3)	(9.7)

TABLE A.2: Unemployment rate — Number of unemployed(n) as percentage of civilian labour force (s.a.)

	1983	1984	1985	1986	1987	1987			1988		1987	1988						Change over 12 months % (b)
						II	III	IV	I	II		Jan.	Feb.	March	April	May	June	
B (g)	14.3	14.4	13.6	12.5	12.2	12.4	12.2	11.9	11.6	11.3	11.7	11.6	11.5	11.4	11.2	11.3	11.4	-7.5
DK	10.1	9.9	8.7	7.5	7.5	7.5	7.5	7.5	7.7	(8.3)	7.4	7.7	8.0	8.0	8.3	8.5	9.0	(27.8)
D	8.4	8.4	8.4	8.1	8.1	8.0	8.1	8.1	8.0	8.2	8.0	8.0	8.1	8.2	8.2	8.2	8.2	1.1
GR	1.6	1.8	2.2	2.8	2.9	2.9	2.9	2.8	2.8	2.8	2.7	2.8	2.8	2.7	2.7	2.8	2.8	-4.6
E	16.5	18.4	19.5	20.0	20.7	20.7	20.7	20.9	20.7	20.3	20.9	20.7	20.5	20.3	20.3	20.2	20.0	-1.6
F	8.9	10.0	10.5	10.7	11.2	11.2	11.2	11.0	10.9	10.8	11.1	11.1	10.8	10.8	10.8	10.9	11.0	-0.7
IRL	14.9	16.6	17.9	18.3	19.3	19.5	19.5	19.2	19.1	18.9	19.1	19.1	19.1	19.0	18.9	18.8	19.0	-2.5
I	11.0	12.0	12.9	13.7	13.9	13.6	14.1	14.2	14.6	15.4	14.4	14.7	14.8	15.1	15.3	15.8	16.3	19.6
L	1.6	1.8	1.7	1.5	1.6	1.7	1.7	1.7	1.7	1.6	1.7	1.6	1.6	1.6	1.6	1.6	1.6	-7.0
NL (g)	(14.2)	14.5	13.3	12.3	11.9	11.8	11.8	11.8	11.8	11.9	11.8	11.8	11.9	11.9	11.8	12.0	11.9	-0.8
P	5.6	6.7	7.7	8.3	7.2	7.3	6.5	6.6	6.9	6.8	6.9	6.9	6.9	6.8	6.8	6.8	6.8	3.3
UK	(11.6)	11.8	12.0	12.0	10.6	11.0	10.4	9.8	9.3	8.8	9.4	9.3	9.2	9.0	8.8	8.6	8.4	-19.9
EUR 12	(10.6)	11.2	11.6	11.7	11.6	11.6	11.6	11.4	11.4	(11.4)	11.4	11.4	11.4	(11.4)	(11.4)	(11.4)	(11.5)	(0.1)
USA	9.6	7.5	7.2	7.0	6.2	6.2	6.0	5.9	5.7	:	5.8	5.7	5.6	5.4	5.6	:	:	-10.5
JAP (h)	2.7	2.7	2.6	2.8	2.8	3.0	2.8	2.7	:	:	2.7	2.7	2.6	2.6	2.6	2.5	2.4	-19.4

TABLE A.3: Consumer price index — Percentage change on preceding period

	1983	1984	1985	1986	1987	1987			1988						1988		Change over 12 months % (b)	
						II	III	IV	I	II	Jan.	Feb.	March	April	May	June		July
B	7.7	6.3	4.9	1.3	1.6	0.7	0.6	-0.3	0.0	0.7	-0.1	0.3	0.0	0.4	0.1	0.2	0.3	1.0
DK	6.9	6.3	4.7	3.6	4.0	1.6	0.7	1.2	1.2	1.4	0.4	0.8	0.4	0.4	0.9	(-0.1)	:	(4.6)
D	3.3	2.4	2.2	-0.2	0.2	0.4	0.0	0.0	0.5	0.5	0.2	0.2	0.1	0.2	0.2	0.2	-0.1	1.0
GR	20.2	18.4	19.3	23.0	16.4	5.6	0.4	5.4	1.6	4.5	-0.2	-0.5	3.0	2.0	0.3	1.3	:	11.8
E	12.2	11.2	7.8	8.8	5.3	0.7	1.3	1.2	1.2	0.3	0.6	0.3	0.7	-0.4	-0.1	0.4	:	4.3
F	9.6	7.3	5.9	2.7	3.1	0.9	0.6	0.5	0.5	1.0	0.2	0.2	0.3	0.5	0.2	0.3	:	2.6
IRL (i)	10.4	8.6	5.4	3.8	3.1	0.6	0.6	0.1	0.7	0.5	0.2	0.2	0.2	0.2	0.2	:	1.9	
I	14.7	10.8	9.2	5.8	4.8	1.2	1.0	1.7	1.2	0.8	0.5	0.5	0.4	0.3	0.0	(0.3)	(0.3)	(4.7)
L	8.7	6.5	4.1	0.3	-0.1	-0.3	0.1	0.4	0.4	1.2	0.1	0.1	0.2	0.0	0.1	0.2	:	1.5
NL	2.7	3.2	2.3	0.3	-0.2	0.6	0.2	0.8	-0.8	0.8	-0.9	0.2	0.4	0.4	0.1	(-0.1)	:	(0.9)
P	25.1	28.9	19.6	11.8	9.3	1.7	1.0	2.5	3.1	1.7	0.8	1.4	0.7	0.3	0.3	0.5	:	9.2
UK	4.6	5.0	6.1	3.4	4.1	1.5	0.2	1.1	0.5	2.4	0.0	0.4	0.4	1.6	0.4	:	:	4.6
EUR 12	8.6	7.4	6.1	3.6	2.9	0.8	0.3	0.7	0.6	1.1	0.2	0.3	0.4	0.5	0.2	(0.3)	:	(2.9)
USA	3.2	4.3	3.6	1.9	3.7	1.3	1.1	0.9	0.6	1.2	0.3	0.3	0.4	0.5	0.3	0.4	:	3.9
JAP	1.8	2.4	2.0	0.7	0.0	1.3	-0.2	0.2	-0.5	0.8	-0.3	-0.2	0.4	0.5	0.1	(-0.2)	:	(0.2)

TABLE A.4: Visible trade balance — fob/cif, million ECU (s.a.)

	1983	1984	1985	1986	1987	1987			1988		1987	1988						Change over 12 months (c)
						II	III	IV	I	II		Jan.	Feb.	March	April	May	June	
B/L	-2435	-4897	-3514	146	-580	414	-150	-510	:	:	-149	(-244)	(194)	:	:	:	:	(371)
DK	-740	-1108	-1538	-1714	96	61	65	5	470	:	-3	(353)	(42)	:	:	:	:	-119
D	18501	24136	32986	53044	56960	13818	14132	14738	13044	:	5584	(4829)	(4147)	(4008)	(4596)	(4660)	:	(-254)
GR	-5800	-6048	-7266	-5809	-5694	-1339	-1169	-1257	:	:	-255	:	:	:	:	:	:	-333
E	:	-4711	-5582	-6306	-8749	-2139	-2324	-2431	-2347	-2830	-533	-736	-682	-929	-904	-941	-986	-303
F	-15628	-13130	-13428	-9699	-12473	-3567	-3095	-3232	-2405	-2969	-999	-450	-999	(-955)	(-943)	(-1214)	(-811)	(476)
IRL	-621	81	430	983	2047	511	517	670	649	(680)	192	272	245	(132)	(283)	(182)	(215)	(119)
I	-8516	-13849	-16130	-2459	-7427	-2360	-1643	-1830	(-2819)	:	-675	-796	(-370)	(-1652)	:	:	:	(-1447)
L	4499	4740	3874	4161	1088	140	289	664	(357)	:	71	344	(-221)	(234)	(-61)	:	:	(94)
NL	:	-3467	-2735	-1297	-2955	-810	-764	-705	:	:	-186	-195	-272	-321	:	:	:	67
P	-9681	-14005	-11540	-19868	-20890	-4911	-5714	-6618	-8685	-9928	-2340	-3014	-3122	-2549	-2901	-3531	-3496	(-1786)
EUR 12 (j)	:	-32256	-24653	11053	761	-308	-420	-827	(-4136)	:	528	(-171)	(-1583)	(-2382)	(-2153)	:	:	(-2278)
USA (k)	-77911	-154992	-194856	-169039	-148746	-37149	-41003	-35732	:	:	-9656	-9949	-11364	-7896	:	:	:	3518
JAP	23072	42599	60497	84010	69636	16544	16184	15396	16861	13700	5343	6228	5325	5308	5136	4181	4383	-445

TABLE A.5: Money stock (l) — Percentage change on preceding period (s.a.)

					1987			1988		1988							Change over 12 months % (d)	
					1987	II	III	IV	I	II	Jan.	Feb.	March	April	May	June	July	
B (M2)	8.7	5.9	7.6	11.5	10.5	3.6	0.6	2.8	2.0	:	:	:	:	:	:	:	:	9.2
DK (M2)	25.5	17.8	15.8	8.4	4.4	2.6	-0.5	1.9	-2.6	3.4	-1.2	-0.9	-0.5	1.1	0.1	2.1	1.6	4.3
D (M3)	5.3	4.7	5.1	6.8	6.0	1.5	1.1	1.4	2.0	1.9	1.1	0.6	0.3	0.7	0.7	0.4	:	6.5
GR (M3)	20.3	29.4	26.8	19.0	24.8	5.2	6.2	6.0	7.0	5.2	1.5	2.7	2.6	0.6	2.3	2.3	:	25.9
E (ALP)	15.9	13.2	12.8	11.4	14.0	3.2	3.3	3.8	2.8	2.8	1.1	0.6	0.9	1.2	0.9	0.7	:	13.2
F (M2)	13.7	9.8	6.0	4.1	4.3	1.6	0.7	1.1	-0.6	2.0	1.3	-1.5	-0.5	1.0	0.3	0.7	2.2	5.2
IRL (M3)	5.6	10.1	5.3	-1.0	10.9	4.3	2.9	1.6	2.3	1.8	-0.3	1.1	1.5	-0.8	2.0	0.6	0.9	9.0
I (M2)	13.3	12.1	10.8	9.4	8.3	3.3	1.4	1.8	0.5	:	-0.3	0.3	0.6	0.9	0.7	:	:	6.4
NL (M2)	(10.7)	(6.8)	(10.5)	4.5	3.9	1.8	1.5	1.5	1.1	:	0.5	-0.3	1.0	1.3	1.5	:	:	8.2
P (L-)	16.8	24.6	28.9	25.9	(16.8)	3.5	5.1	1.5	5.7	3.4	3.5	(0.4)	(1.7)	(1.2)	(2.6)	(-0.4)	:	(16.4)
UK (LM3)	11.1	10.0	13.4	(18.8)	(22.8)	(5.1)	5.0	5.1	4.1	4.7	0.6	0.5	3.0	1.6	0.6	2.4	2.6	20.5
EUR 12 (m)	(11.4)	(9.8)	(9.6)	9.7	(10.1)	2.8	2.1	2.4	1.7	1.6	0.8	0.1	0.8	(1.0)	(0.7)	:	:	(9.4)
USA (M2)	11.7	8.2	8.1	9.1	3.4	0.6	1.3	0.9	2.3	2.2	0.8	0.7	0.7	0.8	0.4	0.4	0.3	5.1
JAP (M2)	7.3	7.8	8.7	9.2	10.8	2.6	2.7	3.0	2.7	2.2	2.8	-0.3	0.2	1.0	0.7	0.5	:	11.0

TABLE A.6: Short-term interest rates (n)

	1983	1984	1985	1986	1987	1987			1988		1988								Change over 12 months % (e)
						II	III	IV	I	II	Feb.	March	April	May	June	July	Aug.		
B	10,5	11,5	9,6	8,1	7,1	6,8	6,7	6,8	6,1	6,1	6,2	6,1	6,1	6,1	6,1	7,1	7,5	0,8	
DK	12,0	11,5	10,0	9,1	9,9	9,6	9,4	9,3	8,7	8,4	8,6	8,7	8,9	8,8	8,4	8,2	7,9	-1,4	
D	5,8	6,0	5,4	4,6	4,0	3,8	4,0	3,5	3,4	4,4	3,3	3,4	3,4	3,5	4,4	5,1	5,3	1,3	
GR	16,6	15,7	17,0	19,8	14,9	13,9	8,0	16,7	14,4	16,4	17,2	14,4	16,9	19,3	16,4	:	:	2,5	
E	20,1	14,9	12,2	11,7	15,8	17,8	17,0	13,1	10,7	10,7	11,8	10,7	11,4	10,5	10,7	11,1	10,7	-6,0	
F	12,5	11,7	10,0	7,7	8,3	8,2	8,0	8,6	8,3	7,3	7,5	8,3	8,1	7,4	7,3	7,4	8,0	0,1	
IRL	14,0	13,2	12,0	12,4	11,1	10,4	9,2	8,8	8,3	7,8	8,9	8,3	8,1	7,3	7,8	7,9	8,1	-1,9	
I	18,3	17,3	15,0	12,8	11,4	11,3	12,8	11,5	11,1	11,1	11,1	11,1	10,5	11,0	11,1	11,3	11,1	-1,9	
NL	5,7	6,1	6,3	5,7	5,4	5,2	5,6	4,6	4,0	4,4	4,0	4,0	4,1	4,1	4,4	5,3	5,4	0,1	
P	20,9	22,5	21,0	15,6	13,9	15,0	14,8	14,0	13,0	12,7	13,1	13,0	13,0	12,7	12,7	12,9	13,0	-1,8	
UK	10,1	10,0	12,2	10,9	9,7	9,2	10,3	8,9	8,6	9,9	9,4	8,6	8,5	7,8	9,9	10,9	12,3	1,9	
EUR 12 (o)	12,0	11,2	10,4	9,0	8,8	8,8	9,0	8,3	7,8	8,1	7,9	7,8	7,7	7,5	8,1	8,6	9,0	-0,2	
USA	8,7	9,5	7,5	6,0	5,9	6,0	6,8	5,9	5,9	6,8	5,8	5,9	6,1	6,7	6,8	7,2	7,5	1,0	
JAP	6,5	6,3	6,5	5,0	3,9	3,7	3,9	3,9	3,9	4,0	3,8	3,9	3,9	3,9	4,0	4,1	4,1	0,4	

TABLE A.7: Long-term interest rates (p)

	1983	1984	1985	1986	1987	1987			1988		1988								Change over 12 months % (e)
						II	III	IV	I	II	Feb.	March	April	May	June	July	Aug.		
B	11,8	12,0	10,6	7,9	7,8	7,8	8,3	8,0	7,7	7,8	7,4	7,7	7,6	7,9	7,8	8,0	8,3	0,5	
DK	14,4	14,0	11,6	10,5	11,9	11,6	12,3	11,7	11,1	10,6	10,8	11,1	11,5	10,8	10,6	10,4	10,5	-1,0	
D	7,9	7,8	6,9	5,9	5,8	5,6	6,2	6,0	5,7	6,1	5,8	5,7	5,8	6,1	6,1	6,4	6,5	0,5	
GR	18,2	18,5	15,8	15,8	17,3	16,2	17,1	19,1	19,1	15,2	21,7	19,1	19,0	16,9	15,2	:	:	-1,1	
E	16,9	16,5	13,4	11,4	12,8	13,2	14,3	13,1	11,8	11,3	11,9	11,8	11,4	11,6	11,3	11,1	11,1	-2,6	
F	13,6	12,5	10,9	8,4	9,4	9,4	10,5	10,0	9,4	8,8	9,1	9,4	9,3	9,1	8,8	9,1	9,4	-0,5	
IRL	13,9	14,6	12,7	11,1	11,3	10,9	11,3	10,5	10,1	9,6	10,4	10,1	9,7	9,8	9,6	9,7	9,5	-2,4	
I	18,0	15,0	14,3	11,7	11,3	11,1	12,3	12,5	12,1	12,1	12,1	12,1	12,1	12,0	12,1	12,1	12,1	0,2	
L	9,8	10,3	9,5	8,7	8,0	8,2	8,1	7,0	7,7	6,5	7,8	7,7	7,3	6,4	6,5	:	:	-1,8	
NL	8,8	8,6	7,3	6,4	6,4	6,3	6,8	6,3	6,0	6,3	6,1	6,0	6,0	6,3	6,3	6,5	6,6	0,1	
P	30,4	32,5	25,4	17,9	15,4	15,4	15,9	15,2	14,2	14,0	14,4	14,2	14,4	13,9	14,0	14,4	0,0	-0,9	
UK	10,8	10,7	10,6	9,8	9,5	9,1	10,0	9,5	9,0	9,6	9,2	9,0	9,2	9,3	9,6	9,5	9,7	-0,4	
EUR 12 (o)	12,7	11,8	10,9	9,2	9,4	9,2	10,1	9,8	9,3	9,3	9,3	9,3	9,3	9,3	9,3	9,4	9,5	-0,3	
USA	10,8	12,0	10,8	8,1	8,7	8,6	9,6	9,1	8,6	9,0	8,4	8,6	8,9	9,2	9,0	9,3	9,3	0,3	
JAP	7,8	7,3	6,5	5,2	5,0	4,6	7,0	5,1	4,4	4,8	4,3	4,4	4,4	4,7	4,8	4,9	:	-0,4	

TABLE A.8: Value of ECU = ... units of national currency or SDR

	1987																		1988		1988						Change over 12 months % (b)
	1983	1984	1985	1986	1987	1987			1988		1988																
						II	III	IV	I	II	Feb.	March	April	May	June	July	Aug.										
BFR/LFR	45,43	45,44	44,91	43,80	43,04	43,04	43,07	43,19	43,23	43,44	43,20	43,32	43,44	43,44	43,45	43,52	43,63	1,3									
DKR	8,13	8,15	8,02	7,94	7,88	7,82	7,94	7,96	7,92	7,94	7,90	7,93	7,97	7,97	7,90	7,90	7,96	0,1									
DM	2,27	2,24	2,23	2,13	2,07	2,08	2,08	2,07	2,07	2,08	2,07	2,07	2,08	2,08	2,08	2,08	2,08	0,4									
DR	78,1	88,4	104,8	137,4	156,1	154,4	157,4	161,9	165,2	166,4	165,0	165,8	166,3	166,7	166,2	166,5	167,1	6,3									
PTA	127,4	126,5	129,0	137,5	142,2	145,0	140,5	138,4	139,4	137,5	139,3	138,8	137,5	137,6	137,4	137,7	136,9	-2,4									
FF	6,77	6,87	6,80	6,80	6,93	6,93	6,92	6,98	6,99	7,03	6,98	7,03	7,05	7,04	7,01	7,01	7,05	1,8									
IRL	0,715	0,726	0,715	0,733	0,775	0,776	0,775	0,776	0,776	0,777	0,776	0,775	0,777	0,778	0,775	0,774	0,776	0,1									
LIT	1349	1381	1447	1462	1495	1494	1502	1514	1524	1543	1521	1532	1542	1546	1542	1540	1541	2,6									
HFL	2,54	2,52	2,51	2,40	2,33	2,34	2,34	2,33	2,32	2,33	2,32	2,33	2,33	2,33	2,34	2,35	2,35	0,6									
ESC	98,2	115,6	130,0	146,9	162,5	161,4	162,8	166,6	169,1	169,7	168,8	169,5	169,7	169,8	169,6	169,1	169,4	4,2									
UKL	0,587	0,591	0,589	0,670	0,705	0,700	0,698	0,692	0,687	0,661	0,693	0,674	0,661	0,657	0,665	0,661	0,650	-7,0									
USD	0,890	0,788	0,759	0,983	1,154	1,150	1,128	1,213	1,234	1,218	1,217	1,234	1,241	1,228	1,184	1,127	1,104	-1,1									
YEN	211,3	187,0	180,4	165,0	166,5	164,0	165,8	164,3	157,9	153,0	157,2	156,9	155,1	153,2	150,7	150,0	147,5	-10,4									
DTS	0,833	0,767	0,749	0,838	0,892	0,859	0,895	0,889	0,902	0,890	0,914	0,900	0,898	0,893	0,879	0,864	0,854	-2,8									

TABLE A.9: Effective exchange rates: export aspect (q) — Percentage change on preceding period

	1987					1988		1988								Change over 12 months %(b)		
	1983	1984	1985	1986	1987	II	III	IV	I	II	Feb.	March	April	May	June		July	Aug.
B/L	-2,8	-2,2	0,9	5,5	4,1	-0,6	-0,3	0,6	-0,2	-0,9	-0,5	-0,1	-0,3	-0,2	-0,6	-0,8	-0,5	-2,2
DK	-0,6	-3,7	1,2	6,3	4,2	-0,6	-1,9	1,1	0,3	-1,3	-0,3	-0,4	-0,8	-0,4	0,0	-1,0	-1,2	-1,8
D	4,0	-1,6	0,3	10,7	6,9	-0,7	-0,3	1,8	-0,1	-1,3	-0,7	0,0	-0,4	-0,5	-0,8	-1,1	-0,7	-1,8
GR	-18,1	-14,4	-15,9	-21,3	-9,9	-2,2	-2,2	-1,8	-2,1	-1,2	-0,8	-0,3	-0,3	-0,5	-0,4	-0,9	-0,8	-6,9
E	-17,2	-2,4	-2,3	-1,5	0,2	-0,1	2,9	3,0	-0,8	0,8	0,1	0,6	0,9	-0,4	-0,7	-1,2	0,2	1,4
F	-7,1	-4,8	1,1	4,5	1,1	-0,8	-0,2	0,3	-0,3	-1,3	-0,7	-0,6	-0,4	-0,2	-0,3	-0,9	-1,1	-3,3
IRL	-4,1	-4,2	1,2	3,7	-2,1	-0,9	-0,3	1,0	-0,2	-1,3	-0,4	-0,1	-0,6	-0,5	-0,1	-0,8	-0,9	-2,3
I	-3,8	-5,9	-5,2	3,7	1,1	-2,0	-0,9	0,5	-0,8	-2,0	-0,8	-0,5	-0,8	-0,6	-0,7	-0,8	-0,6	-4,0
NL	2,0	-1,6	0,3	7,7	5,1	-0,4	0,0	1,3	0,1	-0,9	-0,4	-0,2	-0,2	-0,3	-0,8	-1,0	-0,6	-1,5
P	-21,1	-17,4	-11,5	-7,8	-7,1	-1,5	-1,3	-1,4	-1,5	-1,1	-0,5	-0,4	-0,3	-0,3	-0,4	-0,4	-0,6	-5,2
UK	-7,0	-4,7	-0,2	-7,3	-1,0	4,4	-0,1	2,8	0,7	3,2	-0,7	3,2	2,0	0,2	-2,5	-0,7	1,3	6,2
EUR 12	-8,5	-9,3	-1,9	9,6	7,0	-0,5	-0,6	3,3	-0,5	-1,6	-1,7	0,7	-0,1	-0,9	-2,3	-2,3	-1,1	-3,4
USA	5,7	7,8	4,1	-19,1	-12,1	-3,4	1,6	-5,8	-2,9	-0,7	1,5	-1,6	-1,1	0,4	2,1	3,6	1,4	-3,9
JAP	10,9	5,8	3,0	27,2	8,2	5,9	-2,2	5,1	4,8	1,8	-0,2	0,8	1,2	0,5	-0,6	-2,3	0,5	9,8

Sources: For Community countries: Eurostat, unless otherwise specified; for the USA and Japan: national sources.

(a) National sources, except for the Community, Denmark, Ireland, Belgium and Luxembourg. Because of differences in methods of seasonal adjustment, the change in the EUR index, adjusted by Eurostat and given in Table 1 may differ from the change in the EUR index obtained by aggregating national indices. Data are adjusted for working days. They do not include building.

(b) % change over 12 months on the basis of the non-adjusted nominal series of the most recent figure given.

(c) Change on corresponding month in previous year; seasonally adjusted.

(d) Change over 12 months in seasonally adjusted figures of the most recent figure given for each country.

(e) Difference in relation to the same month of the previous year.

(f) Number of registered unemployed according to national legislation. Annual average, quarterly average and end of month.

(g) Changes in the coverage of these series occurred in 1984 for the Netherlands and in 1985 for Belgium.

(h) As % of total labour force.

(i) Monthly series calculated by linear interpolation.

(j) The seasonally adjusted position for EUR 12 is obtained by seasonal adjustment of the sum of gross figures for the various countries' exports and imports.

(k) Unadjusted figures.

(l) National sources for Belgium, Denmark, Germany, Spain, France, Portugal and the United Kingdom; seasonal adjustment by Eurostat for Greece, Ireland, Italy and the Netherlands.

(m) Average of monthly changes, seasonally adjusted, weighted by GDP at 1980 prices and purchasing power parities. The monthly change in Belgium is obtained by linear interpolation of quarterly data.

(n) National sources; three-month interbank rate except: Belgium: yield on issue of four-month *Fonds des Rentes* certificates; Denmark: daily money market rate (monthly average); Portugal, 6

Principal economic policy measures - July-August 1988

Community (EUR 12)

None

Belgium (B)

1.7 The central bank raises the rates for one-, two- and three-month Treasury certificates by 0,50, 0,45 and 0,40 of a percentage point respectively, taking them to 6,50% for each of the maturities mentioned.

15.8 The Government adopts the draft budget for 1989 which plans to reduce the central government borrowing requirement from BFR 460 800 million (8.3% of GNP) in 1988 to BFR 403 200 million (7% of GNP) in 1989. This target will be achieved by means of additional savings of BFR 77 500 million, BFR 30 000 million of which will come from a change in the management of the debt. Most of the remaining savings will be made in the social area (BFR 21 000 million), the economic area (BFR 7 000 million), education (BFR 3 300 million) and by better management of ministerial departments (BFR 12 500 million). On the other hand, measures aimed at improving the social situation will, from 1 January 1989, increase expenditure by BFR 5 600 million, BFR 3 100 million of which will be charged to the budget and BFR 2 500 million to the various social security schemes. An additional BFR 1 200 million is earmarked for special work schemes, with a view to creating, in 1989, between 3 000 and 4 000 additional jobs, in particular for the long-term unemployed.

29.8 The central bank raises the rates for one-, two- and three-month Treasury certificates by 0,65, 0,80 and 1 percentage point respectively. The rates were raised in five stages, on 12 and 13 July and on 10, 24 and 26 August, and now stand at 7,15%, 7,30% and 7,50%. The discount rate was increased in stages on 14 July, and 11 and 29 August, from 6,75% to 7,50%, and the rate for current account advances from 7% to 7,75%.

Denmark (DK)

8.7 For the second time in three weeks Nationalbanken lowered its rate on settlements with private banks by 1/4 of a percentage point to 8 1/2% on borrowing and 7 3/4% on deposits as capital inflows grew and the DKR approached the upper threshold in the exchange rate mechanism.

31.8 The government's draft budget shows a surplus of DKR 7,8 billion for 1989 compared with a deficit of DKR 3,5 billion in 1988. Expenditure is set to increase by 5,3% while revenue is taken to increase by 7,6%.

Federal Republic of Germany (D)

28.7 The Bundesbank raises the Lombard rate by 0,5 points to 5%, having raised the discount rate on 30 June.

2.8 The rate for purchase purchases is again raised by 0,25% to 4,25%, having been raised in addition to the fixed interest rate tender (4,2). While the latter runs for 34 days, the former runs for 62 days. The minimum rate realized was 4,5%, the maximum rate 5,15%.

25.8 The Bundesbank raises the discount rate by 0,5 of a point to 3,5%.

31.8 For the first time since 14 October 1987 the Bundesbank offers a minimum interest rate tender in addition to the fixed interest rate tender (4,2). While the latter runs for 34 days, the former runs for 62 days. The minimum rate realized was 4,5%, the maximum rate 5,15%.

Greece (GR)

30.6 The Bank of Greece increases the compulsory reserve ratio for commercial banks and for the Agricultural Bank by 0,5% to 8%. Under the same decision, the proportion of reserves which do not bear interest goes up from 3% to 3,5%.

4.7 Interest rates were reduced.

- Savings deposits: the Bank of Greece reduces the interest rate on savings accounts by 0,5%. This brings the rate to 14,5% for credit institutions and to 15% for post offices.
- Base rates: some commercial banks reduce the base rates for working capital loans by about 1 percentage point. This downward trend is expected to spread to other banks, so that these rates will come down to between 21% and 21,5%.
- Housing loans: the interest rate on housing loans granted by the Mortgage Bank will now be 17%, a reduction of 0,50%.

Spain (E)

22.7 The Bank of Spain cuts the compulsory reserve ratio for banks and savings banks by 2 percentage points to 16,5%.

24.8 The Bank of Spain lowers the interest rate on its loans to financial institutions by 1/8 of a point to 10,375%.

France (F)

26.7 The large commercial banks lower their bank base rate by 0,35% to 9,25%. The bank base rate had been cut from 10,10% to 9,60% on 15 May 1986, and since then had remained unchanged in all banks. On 15 September 1986 only one bank had adopted a base rate slightly below 9,45%. This measure should cost the banks some FF 1 100 million in a full year. In

return, the Minister for Economic Affairs and Finance is contemplating the abolition of the tax on the amount of bank loans outstanding which brings in some FF 1 400 million a year for central government.

Ireland (IRL)

None.

Italy (I)

30.7 The Government decides on a package of economic measures with a view to keeping the 1989 budget deficit within acceptable limits. These measures include:

- increasing the central rate of VAT from 18% to 19%;
 - a LIT 50 increase per litre of LPG (methane) and gas oil;
 - authorizing the local administrative authorities to impose a LIT 5 per kWh surtax on electricity consumption in order to increase their own revenue;
 - introducing a contribution by the insured person to the cost of medicines purchased.
- These measures, which take effect on 1 August, should increase tax revenue by some LIT 600 000 million in 1988 and LIT 4 500 000 million in 1989. The insured person's contribution to the cost of medicines should bring in between LIT 7 000 000 million and LIT 8 000 000 million.

26.8 The central bank discount rate is raised from 12% to 12,5%. According to the Minister for the Treasury, the decision was taken both in response to international trends and also in order to curb the growth of domestic demand for credit.

Luxembourg (L)

2.8 The Government proposes certain measures in connection with the preparation of the draft budget for 1989. These include:

- a selective reduction in taxes totalling LFR 1 500 million for firms; the rate of tax on company profits will come down from 36% to 35% (a revenue loss of LFR 325 million) and selective measures provide tax relief for small businesses, farmers (LFR 100 million) and low-income households with dependent children (LFR 630 million);
- a 15% increase in appropriations for public investment and increased subsidies for the building of low-cost housing;
- a number of measures in the social area (adjustment of the minimum social income and the invalidity allowance, reduction of the employers' contribution to the family allowance fund (LFR 100 million), etc.);
- the accelerated amortization of the public debt (it will be reduced from LFR 13 000 million to LFR 10 000 million).

Netherlands (NL)

26.8 On two occasions, 29 July and 26 August, the Nederlandsche Bank raises its discount rate by 0,50 of a point and its secured loans rate by 0,75 of a point. These rates now stand at 4% and 4,75% respectively. The main financial intermediaries decide to raise mortgage loan rates by 0,2% or 0,3%, depending on the length of the contract.

30.8 The government reaches an agreement on a number of measures to be included in the 1989 budget. These include:

- reducing the higher rate of VAT from 20% to 18,5% and abandoning the plan to raise the lower rate from 6% to 7%;
 - a 0,2% reduction in the employee contribution to the unemployment insurance scheme or the sickness insurance scheme, and a parallel increase in the employers' contribution; in addition, the above mentioned employee contributions will be reduced by a total of 0,25%;
 - maintaining the earlier decision to reduce company taxation on 1 October (from 42% to 40% for taxable amounts up to HFL 250 million and to 35% above this amount);
 - making the Treasury take over the employers' contribution to the family allowance scheme;
 - increasing family allowances by 4%;
 - additional measures aimed at bringing the long-term unemployed back to work;
 - additional investment in the transport sector.
- This package of measures should enable personal purchasing power to be maintained despite the freeze on minimum wages and social security allowances and despite accelerating inflation. These measures should also help to reduce the number of unemployed more quickly.

Portugal (P)

8.7 The Government announces the first two firms to be 'privatized': the Tota e Açores bank and the Unicer brewery. Until the constitution is revised, privatization will be limited to 49% and this first stage may not be completed before the spring of 1989. At the same time, the amount of compensation is established for the bank nationalizations which took place in 1975.

United Kingdom (UK)

18.7, 9.8, 25.8 The authorities prompt three consecutive rises in bank base rates bringing them to 12%. The first two increases were 1/2% each, while the third was a full percentage point.

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